THER IS DECEMBER 16 19

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EUROPE'S BUSINESS NEWSPAPER

FINANCIALTIMES

GERMAN UNITY A cushion against

recession abroad

Monday December 17 1990

World News Business Summary

THE FINANCIAL TIMES LIMITED 1990

FT No. 31,331

ANC sets Pretoria likely to deadline lose \$5bn for reform next year

The African National Congress yesterday ended its most important conference for 30 years with a commitment to years with a commitment to continue negotiations with the South African government, although it threatened to pull out of talks unless a strict timetable is adhered to. Resolutions were couched in militant rhetoric, reflecting dissatisfac-

tion among many of the 1,600 delegates at concessions made by their leaders at the negotia-ting table. Page 16 sis. Page 17 **Gulf talks row**

The first of the proposed direct talks between the US and Iraq due to take place today have been postponed indefinitely, amid continuing brinkmanship over the timing of meetings but some fears that the chances of a peaceful solution may be fading. Page 16

Nadir still held Asil Nadir, chairman of Polly Peck International, was still being held last night in central London after being arrested on Saturday as the result of a Serious Fraud Office investigation. A second man was also being questioned last night.

Romanians rally Thousands of Romanians rallied with candles, flowers and angry words against the government to commemorate the uprising that sparked eastern Europe's 1989 anti-communist revolution. Page 3

Aguino drops ally Philippines President Corazon Aquino dropped one of her closest allies from her cabinet in a bid to defuse growing opposition to her rule. She accepted the resignation of trade and industry secretary José Concepcion because of public clamour for his removal.

israel deports Arabs The Israeli government has reacted to growing Arab violence by reinstating a policy of deporting Palestinians, activists. Page 4

TV World Service The BBC has brought forward the launch date for a daily television version of radio's World Service. The Gulf crisis persuaded the corporation to start transmission in March, but it could be brought forward if hostilities break out. Page

Fez death toll Rioting in the old religious city of Fez, in the wake of a general strike last Friday, left a death toll estimated unofficially at up to 100. This was the first such flare-up in Morocco since 1981, when clashes in the economic capi-tal, Casablanca, claimed a simi-

lar number of lives. Page 4 indians shot dead Indian police shot dead at least five people when Hindus and Moslems defied a curfew and battled in the streets of the Taj Mahal town of Agra. A curfew was ordered after the riots hit the town.

Mendes murder A Brazilian cattle rancher and his son were convicted of first-degree murder for killing Chico Mendes, the rainforest defender whose death focused

global attention on the destruction of the Amazon. The men were each sentenced to 19 years in prison at the end of the four-day trial. Page 4 Sky high at \$50 A woman passenger survived a fall of five kilometres from

a Soviet airliner and then won \$50 compensation - for the loss of her baggage. A Soviet newspaper said the incident occurred in 1981 when an Aeroflot aircraft collided with a military aircraft but had been kept secret until now.

Federal Fund

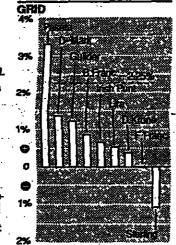
The Federal Fund, which insures US bank deposits, is likely to lose \$5bn in 1991 following an expected 34bn loss this year, said Mr William Seid man, chairman of the Federal Deposit Insurance Corporation. Page 16

NEWS Corporation, Rupert Murdoch's international media group, is struggling to complete a \$70n loan package needed to allay a liquidity cri-

created one of Scandinavia's biggest companies. Page 17 MOULINEX, French kitchen equipment maker, is to go ahead with the takeover of Krups, German household appliance group, following the resolution of a boardroom row.

Page 19 **EUROPEAN Monetary System** Belgium raised official interest rates twice last week to keep the Belgian franc in line with the strong D-Mark. The Dutch central bank also tightened its credit stance to keep the guilder firm, but the Bank of Spain kept rates unchanged as the peseta remained at the top of the EMS. The Bank of France also left rates unchanged, and the UK chancellor warned that London rates cannot fall until sterling improves. The pound remained

at the bottom of the system. EMS December 14, 1990



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluc tuation band. In practice currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the sys-tem. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands. Weak £ prevents cut in interest rates,

senior executive. Page 17 GENCOR, South Africa's second largest mining house, denied speculation that it was considering an outright merge with Lonrho, UK industrial

INSIDER TRADE: Irish prime minister Charles Haughey ordered an investigation into the leaking of official inflation figures to the Dublin stock exchange last week. Page 3

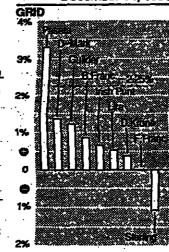
CASINO, French supermarkets

CBI, Confederation of British Industry, reports that more UK manufacturers expect output to fall in the next four months than at any time in the past 10 years. Page 8

pes the industry

the global cold

AKER, big Norwegian industrial group, rejected a merger proposal from Euroc, Swedish cement and building materials group. The deal would have



Page 8. Currencies, Page 27 Shearson Lehman, beleaguered investment banking and bro-kerage subsidiary of American Express, has lost another

group. Page 17

group, is to sell all its petrol stations to Shell, UK oil major, and Agip, Italian state-con-trolled oil group, for FFr660m (\$129m). Page 19

Albanian forces tighten grip after widespread riots

By Judy Dempsey in London and Laura Silber in Belgrade

ALBANIA'S security forces have tightened their grip throughout the country's main towns and cities following anti-government demonstrations and warnings by President Ramiz Alia that "neither the state nor the people will tolerate criminal acts". Police and troops yesterday were patrolling the streets of Tirana, barricades were in

place outside the radio and television headquarters and the security forces were being fully deployed in other cities. The ruling Albanian Party

of Labour is now desperately irying to reassert its control. Workers throughout the country last week vented their anger against decades of misrate and growing economic deprivation after Mr Alia, leader of the APL, had bowed to sindents' demands by promto students' demands by prom-ising free, multi-party elections, which are scheduled to take place in February. Mr Alia at the weekend told peasants in the village of Peza that "the competent organs must intervene immediately, without hesitation, against the

vandals who destroy, burn down and plunder the people's property, and who are a men-

ace to public order."

A western diplomat said yesterday: "These disorders are spontaneous outbursts of dissatisfaction and frustration with communist rule and mis-management . . . the pressure is mounting."
Diplomats added that the

wave of demonstrations in the small, poor and backward country of 3m inhabitants, could undermine Mr Alia's cautious policies of liberalisa-

tion. Conversely, fear of instability and deepening public hostility towards the APL could lead to a backlash by hardliners and the Sigurimi.

the hated secret police.

The APL'S growing sense of insecurity was confirmed on Saturday after it refused cooperation with the newly formed independent Demo cratic party. Mr Gramoz Pashko, a professor of econom-ics at Tirana's Enver Hoxha University, and one of the founding members of the party, said his movement had

offered to help the APL for the past 40 years. " "defuse the crisis". But Mr Pashko, a privileged intellectual who has very close links with the communists, echoed the official view by describing the demonstrators as "hooligans" and "dark

Workers in several cities, including Elbasan, the country's third largest city and the centre of the steel industry, rioted on Friday in an attempt to highlight the deprivation and poor conditions under which they have had to endure

Mr Alia now appears to be torn between maintaining the party's control against the background of growing insta-bility, and allowing the process of democratisation to take its own course.

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In an attempt to win over the support of the Catholic church, Mr Alia allowed Mon-signor Simon Jubani. arch-bishop of Shkoder, to speak on Radio Tirana. In a brief statement he condemned "such acts of vandalism [which] go against the will of God".

EC embarks on new round of debate on closer union

THE EC launched itself at the weekend into the most ambitious constitutional revision in its history, aimed at creating a political, economic and monetary union.

Governments of the Twelve

will this week begin honing their negotiating positions for the two inter-governmental conferences - one on economic and monetary union (Emu) and the other on political reforms - that formally began in Rome on Saturday afternoon and are

on Saturday anemoon and are targetted to end next October. There were, however, continuing differences of emphasis yesterday as leaders, ministers and officials returned to their national capitals. The British government plans to table its alternative, evolutionary approach to Emu in the form of a draft treaty early next month. The European Commission has already produced its own draft on Emu, and its president, Mr Jacques Delors, warned on Saturday of a "political crisis" if Britain were to blow this off course.

Despite the broad measure of agreement already reached on Emu. Mr Delors did not hide his anxieties that some govern-ments might backslide on com-mitments already given. He said he was "mistrustful" of the process lying ahead. His comment in part reflected a fear that Britain's proposed amendments could set the objective of monetary union far into the future. But it also exposed worries about the obstructions which member states such as Germany might erect in setting as a precondition for monetary union a much closer convergence of performance between EC econ-

Mr John Major, the British prime minister, stressed that

British policies on the main issues had not changed with his coming into office, although his partners left Rome with the belief that they could expect more flexibility
than from his predecessor, Mrs
Margaret Thatcher. He
described the summit document on Epu as "a menu on
which Britain had placed some
of its favourite dishes" including measures to tighten controls on Community spending.

The menu simile appealed to
Mr Ginlio Andreotti, the summit chairman, who said that
the Epu conference had to choose between options and that "the important thing is that all 12 governments have come to the negotiating table." He added that "a great effort" would be needed to ensure that the eventual treaties were rati-fied by all national parlia-ments. The Italian government, for its part, would not submit them to its parliament without their having first had a favourable opinion from the European Parliament. On the political front, the

Jacques Delors: warning of potential political crisis

asked to consider a possible Community role in *defence matters". This has stirred anxiety in the Irish government, the only non-Nato member of the EC. But Mr Charles Haughey, the Irish prime min-ister, said he was reassured by the summit declaration that defence discussions would be without prejudice to the traditional position" of any non-Nato state.

The summit's outcome has been eagerly awaited by the Community's European Free Trade Association partners

improving the efficiency of its machinery by a wider use of majority voting.

IGC negotiators have been who may well give their initial reactions at a ministerial conference with the Community on Wednesday. The talks will seek a breakthrough in the negotiations to establish a single economic area between the 12 and the six plus Liechten-

> The neutrals among them, Austria, which has already applied for membership, and eden, which will do so next year, are unlikely to be alarmed by the summit's security policy ambitions.

Negotiators set out on perilons journey; Delors nurses a healthy suspicion; Italian viewpoint – Page 2

Western finance groups want rapid Soviet reforms

By Quentin Peel in Moscow

THE leading financial institutions of the west, includ-ing the International Monetary Fund and the World Bank, are expected this week to call for a radical acceleration of economic reform in the Soviet Union.

They have drawn up a comprehensive set of policy pre-scriptions for the Soviet authorities, including strict wage restraint to accompany price liberalisation, a complete overhaul of the taxation system, tough controls on credit for state enterprises, and much faster privatisation of trade, distribution and small business

At the same time, the most authoritative western analysis of the ailing Soviet economy yet produced gives forecasts of inflation in the coming year running at more than 50 per cent, a further slump in pro-duction of at least five per cent, and a doubling or tripling in unemployment even based on "relatively optimistic

assumptions".

A draft of the joint report produced by the IMF, the World Bank, the Organisation for Economic Cooperation and Development, and the Euro-pean Bank for Reconstruction and Development, in consultation with the European Commission, has been circulated in Moscow for Soviet comments. Initial reactions within the

central government have been positive, according to western diplomats, because the report provides a coherent analysis of the country's present economic plight, and a series of clear policy prescriptions.

However, the document is based on the assumption that significant economic, financial

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and fiscal powers would be ties. That is likely to arouse the hostility of many of the 15 union republics, currently fighting for far greater control of foreign exchange earnings, tax revenues, and monetar

Its clearest conclusion is that the Soviet government must opt for a more radical economic reform strategy, implying a shorter transition period to a market economy than that favoured by the present admin-

"The chances of staying with a conservative strategy in the medium term are slim," the authors say. Without sufficlently rigorous fiscal and monetary policies, "the result would be growing macroeco-nomic imbalances, increasingly severe shortages, and rising black market prices," -exactly the situation in the Soviet Union today.

The document stresses the need for clearer legal protection of private enterprise and private ownership, and calls for genuine liberalisation of foreign trade to make Soviet

industry more competitive.

The distribution sector is haulage, warehouses and retail shops, as a top priority area for privatisation calling for the complete dismantling of the corrupt and inefficient state

distribution system.
At the same time, the report cepts the need for some big compromises on traditional IMF orthodoxy, including the maintenance for a dual exchange rate system, creation of stabilisation funds to subsidise loss-making enterprises try Continued on Page 16

IBM and British Telecom plan global service for companies

governments will be grappling with the development of a common security policy among other things. First international reactions to this aspect of the Community's ambitious plans will be given in Brussels.

plans will be given in Brussels

today, when Mr Gianni De Michelis, Italy's foreign minis-ter and president of the EC,

attends a meeting of Nato for-

Emu, the European political union negotiations will begin

on the basis of a summit docu-

ment which sets only orienta-tions on security and defence

policy, strengthening the pow-ers of the European Parlia-ment, extending the range of

the Community's activities and

In contrast to the work on

eign ministers.

By Guy de Jonquières and Alan Cane in London

International Business
Machines of the US, the
world's biggest computer
maker, are in advanced negotiations on a plan to offer large companies worldwide a com-prehensive communications service.
The planned alliance marks

BT's most ambitious attempt to expand internationally and could position IBM as a power-ful force in the world telecommunications market. By joining forces the two companies would pose a direct competitive challenge to monopolies in Europe as well as to American Telephone and Telegraph and other US network operators. BT would take over manage-ment of IBM's internal communications system and link it with Tymnet, BT's international data network. Later, the two companies aim to extend their co-operation to the much larger market for international voice communications.

IBM at present uses its com-

munications system mainly to

BRITISH TELECOM and link its own operations. Tym-International Business net, which BT acquired from Machines of the US, the McDonnell Douglas of the US last year, is the largest speci-alised data network in the US. It also serves Europe and other parts of the world.

IBM would take responsibil-

ity for supplying the informa-tion services and software on the network - from the simple transmission of messages to the electronic processing of companies' ordering, billing

and accounting.

The plan coincides with the British government's review of telecommunications policy. This is expected to end the telecommunications "duopoly" enjoyed by BT and Mercury and open the UK market to much wider competition.

IBM's recent decision to move the worldwide headquarters of its communications business from New York to London is understood to be closely connected with its planned alliance with BT. The negotiations were initi-

FT SURVEYS THIS WEEK

chairman, with Mr John Akers, IBM's chairman. IBM is conducting the day-to-day negotiations through its UK subsid-

The two companies, which are among each others' largest customers, first sought to collaborate in 1984, when they agreed to form a joint venture to offer advanced data services in the UK. The British government refused on competition grounds to license the project after protests from other computer and communications

But the government is not expected to oppose the latest plan, which would involve co-operation well beyond the UK market. However, the pro-posal could attract close scrutiny from competition authorities in Brussels.

in an effort to sidestep possible EC anti-trust objections, the two companies plan to structure their partnership as

an informal "trading relation-ship" rather than as a joint ated by Mr Iain Vallance, BT's



M WEDNESDAY:

Ispanese Automotive Industry: An awesome presence that has

East Midlands: facing leaner times. (Separate section). Yugoslavia Trade & Industry: critica days ahead. (See panel, left). E TUESDAY:

ireland: Two forces upstaged the country's successful EC presidency the country's World Cup soccer am, and Mrs Mary Robinson. European Finance, Investment, P. 11: Switzerland. (Some editions).

nnel Islanda: redefining their positions as "offshore Europe".

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THE MONDAY INTERVIEW



Felipe González (left). prime minister of Spain, is one European leader who prolesses to no concern over the issue of sovereignty, or of the encroachments a

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future Europe might make upon it Page 32	tive in e
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Easing canctions: South Africa inches in from

Retailing in Europe: Single-market law resha-CS First Boston: Swiss call the shots 10

Yugoslav Trade and industry The country is still printing money, but not like it used to be. Efforts are

also being made to free the troubled

competitors of all nationalities in various states of panic.

A 24 hour, up to the minute Business Information and Economic Forecast Service is available to subscribers of the Nikkei Data On Line Information Service. Simply by keying into your terminal, you have at your fingertips a direct link to Nikkei's enormous news, information and analytical resources, providing you with the world's most comprehensive Business and Economic Database available. Events are displayed practically as they happen - so you're never more than minutes away from the news.

THE European Community has now embarked on its most ambi-tious voyage ever. Its last constitutional revision, the Single Euro-pean Act of 1986, did not do much more than provide the legislative grease to speed the achievement of the single market, a goal that all

Now, the two inter-governmental conferences which were ceremoniously opened in Rome at the weekend have been asked by the Rome

 Forge a common foreign and security policy, even to the point of "considering" a role for the Community in "defence matters".

Strengthen the role of the Euro-

pean Parliament, even to the point of "considering" giving that transnational legislative body co-decision, or an equal say, with the Council of Ministers, in making EC • Examine the concept of European citizenship, which might take the form of letting EC citizens vote in each other's local elections and

Policy objectives

tion in the rest of the world. • Pursue the well-advanced work on economic and monetary union (Emu) to a conclusion.

These are the compass points

that IGC negotiators have been set. They will have to steer through many treacherous shoals – and around two big rocks on which the good ship Europe could founder.

good snip kurope comu toutuer.

Sticking clear out of the water is
UK opposition to the single European currency and federal central
bank which its 11 partners agree
they want. Prime Minister John
Major said he was still wedded to
the market-driven approach of letting a new monetary institution issue the "hard Ecu" and seeing how far this would develop into a common, or even a single, currency. He took the ideological sting out of UK opposition by suggesting that what the Community needed

(with the hard Ecu) before it con-templated the irrevocable step of melting national monies into one.

None the less, he signalled that by early January, the Emu confer-ence would have on the table a British draft treaty, putting its hard Ecu ideas into legal language, as an alternative to the draft treaty submitted this weekend by Mr Jac-ques Delors, the Commission presi-dent. Fears that this British plan, coupled with quite different perfec-tionist demands from Germany, might spin the conference into an endless seminar "where we all grow white beards" led Mr Delors into the melodramatic threat that

"if we have to provoke a political crisis, so be it". Equally, the political union conference (Epu) could be shipwrecked if negotiators strain too hard on defence. To mollify sensitivities in and outside the EC on this, the summit said that defence should be discussed "without prejudice to member states' existing obligations in this area, bearing in mind the importance of maintaining and Ian Davidson on Europe, Page 4
 South Africa: in from the cold,

strengthening the ties within the Atlantic alliances and without prej-udice to the traditional positions of

other member states".

In fact, there is only one such "other" state – neutral Ireland.

Prime Minister Charles Haughey said "if the Twelve can devise a sain in the Twelve can devise a security policy by the Twelve for the Twelve, we will consider participating". This would mean the Community eschewing the closer links with the Western European Union (WEU) defence organisation

that many other EC leaders want.
Dublin has to be wary. Even the
mention of "security co-operation"
in the 1986 Single Act required a
special amendment to the Irish con-

But Ireland is relying on the fact that it will joined by at least Britain, Germany and Denmark in wanting to postpone discussion of strictly military matters to the subsequent IGC on political union that still. Indeed, the Rome summit's everyone expects will come clear decision to provide Ecul. 15bn everyone expects will come towards the end of the century. The fates of the two current IGCS

are linked. Emu may be far further advanced but, even more than the UK, Germany is the key to its suc-cess, and its leader, Chancellor Helmut Kohl, made crystal clear again over the weekend that he would not go into a monetary union

not go into a monetary union unless it was given a new political super-structure. "Parallelism is essential for us." he said.

It may be some months before the IGCs produce headlines comparable to this weekend's. They now drop below the political plimsoll line into weekly (for Epu) and fortigitive (for Epu) negotiations by nightly (for Emu) negotiations by senior officials, punctuated by monthly ministerial reviews. The agreed aim is that they will aim to wind up both conferences by next October, leaving 14 months for rati-fication by national parliaments and entry into force on January 1

Events in the outside world will not, however, stand conveniently

(£800m) in food and technical aid to Moscow next year is fast getting a common foreign policy in this area, which because of past relations with the Soviet Union has clear

with the soviet of the last creat security implications.

The Rome summit called for redoubled efforts to do away with internal European Community border checks (part of the 1992 project), and therefore to harmonise security is a the Community's extension on the Community's extension ect), and therefore to harmonise controls on the Community's external frontier. A common policy on immigration, asylum, crime and drugs – hitherto police matters outside the EC treaty remit – might therefore be established before the IGC negotiators even get around to the issue

before the IGC negotiators even get around to the issue. Likewise, the new push on social legislation, which the summit urged (without outright British objections this time) may soon cre-ate new realities that the IGC will merely be asked to register in legal

David Buchan

Major brings his instinct to bear

FOR Mr John Major it was an impressive debut on the European stage. In Rome, the British prime minister took the first step towards returning Britain to the centre of the European Community from the Suropean Community from the fringes to which Mrs Margaret

Thatcher had driven it. He demonstrated that what he lacked in experience at ne tacked in experience at European summits, he could compensate for with a sharp political instinct and a generous sprinkling of charm.

But if the meeting was an undoubted personal success, it deferred rather than dispelled the dilemmas for his government and the Conservative

ment and the Conservative party posed by the pressures for European integration.

The prime minister was care-ful to insist it was the style

and tone not the substance of Britain's approach that had changed since Mrs Thatcher's isolation at the last Rome summit in October had precipitated

her departure.

Mindful of the powerful
anti-federalist streak running
through the right of his party, he will make the same point when he reports on the summit to the House of Commons

He is astute enough, how-ever, to realise that in the tailed negotiations over coming months on political and economic union in the two inter-governmental confer-ences it will not be enough merely to sound positive.

There are already signs that he is prepared to compromise on substance. The draft treaty amendments which Britain will table in early January will be designed to demonstrate that its alternative to the Delors blueprint for a single currency offers a practical advance towards monetary union. The amendments will be designed to show that the "hard Ecu" – which Mr Major now refers to as a new Euro-pean Currency – and the European Monetary Fund which will manage it - could provide a transition phase

towards a single currency. His signature on the commu-nique this weekend indicated also that Mr Major is prepared to treat seriously suggestions for institutional changes in the conference on political union.

in a phrase which summed up the break with his predecessor, he commented that though many of the more defederalist suggestions of his partners were unacceptable, it was "helpful and legitimate" to discuss them.
What remains far less cer-

tain is whether the domestic political constraints he faces in the run-up to a general election will allow him to live up to the expectations he has now raised with his European colleagues. Mr Major's approach at the summit was clear from the out-John Wyles set. The judgment of his advisers was that Mrs Thatcher had provided a unifying force for the other 11 Community gov-ernments. Without the cament which her opposition had pro-

which her opposition had provided, cracks would appear in the apparent consensus among his European colleagues.

To an extent it worked. Mrs Thatcher probably would not have signed without reservation the communiqué which Mr Major happily appended his name too. The references to strengthened powers for the European Parliament and to the accelerating the "social" the accelerating the "social dimension" of the Community would have been anathema. Senior officials with other

Britain back in the fold

delegations, however, were ready to admit that Mrs Thatcher would probably have not been offered the same document. Her herce antipathy to the goals they shared would have persuaded them to seek to nail down more precisely the mandates for the two con-

As it was, France's determination to strengthen the pow-ers of the Council, the Netherlands' focus on economic convergence as a precondition for Emu, and Germany's preoccupation with the independence of a European central bank, revealed plenty of cracks. It was probably that as much as anything that irritated Mr Jacques Delors, the

Mr Major was intent also on creating political alliances. His bilateral talks with Chancellor Helmut Kohl were part of an exercise designed to rebuild the many bridges burnt by Mrs Thatcher's opposition last year to German unification.

Those close to Mr Major expect their talks to be the first stage of a campaign to persuade the German leader of the natural identity of interest between the two major European parties of the right.
Mrs Thatcher's fraught rela-

tions with her colleagues in Europe sometimes exaggerated the cohesion of the other 11, but the plaudits they offered her successor should not be taken as evidence that the differences have disappeared.

President François Mitterand was among several leaders warning that they would now expect changes in substance to follow those in style.

Mr Major's hope must be that he can avoid that dilemma at least until after the general election. But as long as Britain's vision of the shape of Europe remains fundamentally different from that of its partners, he will not for be able to escape it indefinitely.

Philip Stephens



INTER-GOVERNMENTAL CONFERENCES

Brussels view

Delors nurses a healthy suspicion

"IN all this suphoria", said Mr Jacques Delors, European Commission president, "someone has to play Cassandra".

This is the key to understanding Mr Delors' Rome outburst that, if Britain and maybe some other countries sought to deflect the course of negotiations on economic and monetary union (Emu), "we might have to provoke a political crisis".

might have to provoke a political crisis".

He was giving vent to his strong streak of political paranoia. And he cannot quite believe his luck so far. Having presided over the committee of experts that produced the original Delors report on Emn, beging example the Commission inal Delors report on Emu, having swung the Commission and 11 member states behind it, and having produced a complete draft Emu treaty on the eve of the Rome summit and the opening of formal Emu negotiations, he still knows there is many a slip between cup and lip, before agreement and ratification of a treaty by end-1992.

and-1992. He also considers that the Commission has an institutional role, even duty, to be paranoid about Community projects being pushed off course. The "misgivings" he expressed in Rome were expressed in Rome were chiefly directed at the UK, whose hard Ecu treaty proposals next month Mr Delors wants discussed only in the context of the "transitional" phase to the longer Commission draft treaty, and not as a "distracting" complete alternative to his document.

But there are other targets

But there are other targets of his suspicion, notably "per-fectionists" in Germany who



Waigel: confirmed the president's fears

are loath to surrender the Bundesbank system until they see it exactly replicated at the EC level in the proposed EuroFed central bank. Mr Theo Waigel, the German finance minister, confirmed the Commission president's fears when he mentioned that incomes policies had to be an element in economic conver-

gence among the Twelve. Mr Delors retorted that while relative wage and price stability was important, Emu negotiators had to focus on what governments could directly control - their budget deficits. The Commission pres-ident likens efforts to deter-mine what is "real" economic convergence to medieval dis-cussions of the sex of angels. He fears that Britain and Germany could in their very different ways spin out negotia-tions "until we all grow white

As was once said of Dr Henry Kissinger, even para-noids have enemies.

David Buchan

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The Twelve in Rome: among foreign policy initiatives were a pledge of aid for the Soviet Union and agreement to scrap a ban on new investment in South Africa

Commission to step up search for trade deal

THE European Commission has been instructed by EC heads of government to step up its efforts to secure a resump-tion of the suspended trade liberalisation talks and reach a balanced agreement "in the shortest possible time."

In a rather defensive formal statement, the 12 avoided singling out the US for special mention over suspension of the General Agreement on Tariffs and Trade talks. But their approach made by all participants" appeared to be rebuking Washington and its allies in the Cairns group of countries for seeking to put all the blame for the failure of the negotiations in Brussels earlier this month on the EC's unwillingThe EC's foreign relations

ness to make radical reforms to its common agricultural policy.
An outburst from Mr Jacques Delors, the Commission president, at the summit's closing press conference was more explicit. "It is not up to the US to tell us how to organise our agricultural policy. The US has asked for too much too soon. They are the authors of the

failure of the negotiations." German Chancellor Helmut Kohl rejected the idea that his country had a special responsi-bility for untiling the Gatt knot. "Gatt concerns everyone so everyoue will have to find a by complying fully with UN

solution," he added.

The European summit's list of foreign policy declarations authorised a meeting between the Italian presidency and Mr Tariq Aziz, Iraqi foreign minis-ter, aimed at securing compliance with United Nations resolutions. The summit supported dialogue with Iraq "of the sort President Bush has offered." It warned Iraq that UN Security Council resolution 678 authorising use of force after January 15 - put the responsi-bility on the Iraqi government "to ensure peace for its people"

demands. An appeal for com-pliance with UN resolutions was also directed at Israel On the Soviet Union, the Twelve signalled they would ask the US to re-negotiate statutes of the European Bank for Reconstruction and Development to increase Moscow's

loan entitlement, currently Ecul80m over five years, which is limited by its 6 per cent share of the Bank's capital. The entitlement of eastern They also stressed that co-operation with the USSR should be given a priority by EC institutions so that the Ecul.15bn of food aid and technical assistance, which has

been granted, can be swiftly

direct investment in South Africa, first imposed in October 1986. Britain broke ranks to lift this ban earlier this year. The Twelve said they had decided to encourage the pro-cess of political change under way in South Africa. They promised that a further easing of other trade, military and tacts with Pretoria would follow the repeal of the Group Areas Act and the Land Acts,

With some difficulty, the summit overcame objections

from France, Ireland and Den-

mark to agree to lift the ban on

two pillars of apartheid. David Buchan

John Wyles

• The Rome presidency

Italy claims its place in the EC history books

than a touch of exhaustion, the relieved and smiling faces of Mr Giulio Andreotti, the Italian prime minister, and of Mr Gianni De Michelis, his foreign minister, had but one message on Saturday afternoon: Italy had again presided over an historic step forward in the develop-

ment of the European Community.
While Mr Andreotti went off to the Roman racetrack of Tor di Valle, where a successful wager added pecuniary gain to the political fruits of his characteristically skilful chairmanship of the summit, Mr De Michelis was giving patient attention to his public relations, lauding to television cameras the achievements of Italy's six-month term in the Community presidency.
"1991 will be a year of achievement

impulse which our presidency has given it," said the foreign minister, who appeared to be carrying less weight and more hair than when he assumed his

elis have ensured that the two summits of Rome 1990 will go into the history books alongside Milan of 1985, which launched the intergovernmental conference leading to the Single Act with its widening of EC responsibilities, Venice 1980 when the Community first element selected and the Releasting and the statement of the Releasting and the selected selected selected the selected selected selected the selected clearly acknowledged the Palestinians' right to self-determination, the signing of the founding Treaty of Rome in 1957, and the preceding Messina conference which drafted it.

ference on Economic and Monetary Union would by itself have been satisfying, But the attainment of an equiva-By dint of considerable political flair.
matching determination and furious activity, Messrs Andreotti and De Michent negotiation on European Political Union is of a different order because when the Italians took over in July, the when the italians took over in July, the political conviction had barely taken hold among the 12 that it should be a matching objective. "We started from scratch with just a blank piece of paper," said Mr De Michelis.

In the event, the 12 arrived at the Emu iGC in a more advanced state of

preparation, thanks to the controversial summit in Rome which left the then British prime minister. Mrs Margaret Thatcher, feeling that she had been ambushed by Mr Andreotti. Then, the Italian prime minister seized on Chan-cellor Kohl's readiness to attach the

launching the inter-governmental con-Buropean Central Bank and the launch of phase two of monetary union. Our view was that it was better to have a clear German position before their elections earlier this month," said

Mr De Michelis. He rightly feels that the two Rome summits allied to the successful co-ordination of the Community's reaction to the Iraqi invasion of Kuwait, the development of a political and economic sup-port programme for President Gorbachev's perestroika and the signing of two declarations on future relations between the Community and the US and Canada, far outwelgh some of the perceived shortcomings and failures of the Italian presidency.

Steering the 12 to the final act of for the Community, thanks to the Text of the summit communiqué

European union 'aims to realise the aspirations of its citizens'

for the negotiations which begin next month in the Intergovern-mental Conference on Political Union. The following are edited extracts from the summit commurique setting out the basis for the

The union will be based on the solidarity of its member states, the fullest realisation of its citizens' aspirations, economic and social cohesion, proper balance botween the responsibilities of the individual states and the Community and between the roles of the Institutions

Without prejudice to other subjects raised by governments or by the Commission in the prepara-tory work, the European Council asks the conference to give par ficular attention to the following: I. Democratic legitimacy in order to strengthen the role of the European Parliament, the

 Extension and improvement of the co-operation procedure; Extension of the procedure for assent to international agree-

ference to consider the following

ments which require unanimous approval by the council;

involvement of the European Parliament in the appointment of the Commission and its president; Increased powers on budget control and financial accountabil-Closer monitoring of the

implementation of Community policies:

Consolidation of the rights of petition and enquiry as regards Community matters.

The European Council also discussed further-reaching reforms on the role of the European Parliament and asks the conference to consider developing co-decision procedures for acts of a legislative return

islative nature.
Consideration should be given to arrangements allowing national parliaments to play their full role in the Community's development. The European Council notes the particular importance which some member states attach to: The adoption of arrangements that take account of the special impetence of regional or local institutions as regards certain

Community policies:

The need to consider suitable

procedures for the consultation of

policy
The common foreign and security policy should aim at maintaining peace and international stability, developing friendly relations with all countries, promoting democ-racy, the rule of law and respect for human rights, encouraging the economic development of all nations, and should also bear in mind the special relations of Individual member states. To this end, the conference will in particular address the union's objectives, the scope of its poli-cies and the means of fostering

and ensuring their effective implementation within an institutional framework.

Such an institutional framework would be based on the following

namely the council: Harmonisation and, where appropriate, unification of the preparatory work; a unified secretar-A reinforced rale for the Com-

mission, through a non-exclusive

right of initiative;

• Adequate procedures for con-

sulting and informing the Euro-

pean Parliament;

Detailed procedures ensuring that the union can speak effectively with one voice on the international stage, in particular in international organisations and vis-a-vis third countries. The following elements should be considered as a basis for the

decision-making process:

The rule of consensus in defining general guidelines; in this context, non-participation or abstention in the voting as a The possibility of recourse to

qualified-majority voting for the implementation of agreed poli-As recards common security. union's role in this area should be considered, in particu-lar with reference, initially, lo issues debated in international armament and related issues; CSCE matters; certain questions debated in the United Nations, including peace-keeping operations; economic and technological co-operation in the armaments field; co-ordination of armaments expert policy, and

non-proliferation.
Furthermore, the European Council emphasises that, with a view to the luture, the prospect of a role for the union in defence matters should be considered, without applicate the member. without prejudice to member states' existing obligations in this area, bearing in mind the importance of maintaining and strengthening the ites within the Atlantic alliance and without prejudice to the traditional positions of other member states.

of other member states.

S. European citizenship
The European Council notes with satisfaction the consensus among member states that the concept of European citizenship should be examined. It asks the conference the following rights could be enshrined in the treaty so as to give substance to this concept
Civil rights: participation in
elections to the European Parliapossible participation in munici-

pal elections;
Social and economic rights: freedom of movement and residence irrespective of engagement in economic activity, equality of opportunity and of treatment for Joint protection of Community citizens outside the Community's borders.
 Consideration should be given

Consideration should be given to the possible institution of a mechanism for the delence of citzens' rights as regards Community matters ("ombudsman"). In the implementation of any such provisions, appropriate consideration should be given to particular problems in some member states. sigles. 4. Extension and strengthening of

Community action The European Council asks the Conference to bear in mind, inter alia, the following areas:

The social dimension, including the need for social dialogue;

Economic and social cohesion. among the member states; • Improved protection of the environment in order to ensure sustainable growth;

The health sector and in par-ticular the combating of major

 A research effort comme rate with the development of the Community's competitive capac-

An energy policy alming at greater security and efficiency, bearing also in mind co-operation

Providing the Community with major infrastruct ures, in order also to permit the completion of a asso to permit the completion of a trans-European network;

Safeguarding the diversity of the European heritage and promoting cultural exchanges and lucation. 5. Effective

education.

5. Effectiveness and efficiency it agreed that the essential role that the European Council has played over recent years in creating fundamental political momentum will continue. The conference will consider whether the Community's development bewards. munity's development towards munity's development towards the union necessitates an accentuation of this role,
Regarding the council, the extension of majority voting will be examined by the conference, including the possibility of making it the general rule with a limited number of experience.

number of exceptions.
Regarding the Commission, the
European Council emphasised
that extending the responsibilities
of the Union must be accompanied by a strengthening of the Commission's role and in particular of its implementing powers to that it may, like the other institutions, help to make Community action more effective.

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NDAY DECEMBER 17 1990

INTER. GOVERNMENTAL CONFERENCES Brussels view

Delors nurses a healthy suspicion

call all this euphoria" and a lacques Delors. Europea Lacques Delors. Europea Lacques Delors. Europea Lacques Delors. Europea Lacques Delors lack to play Cassandre.

This is the key to missanding Mr Delors Rome a standing Mr Delors Rome a burst that, if Britain an anybe some other commit sought to deflect the comet negotiations on economic at mountary union (Ems), a might have to provoke a might have to provoke a might be was griving.

At Crisis. strong streak of political pa-strong streak of political pa-nedia. And he cannot the le-believe his luck so far link presided over the committed experts that produced the a-second Delors report on the experts that produced the at that Delars, report or im having swung the Commiss and 11 member states being it, and has ing produced an extens deaft. From treats and reads of the treats and the state of the treats and the treats and the treats are treats. piete draft Emu treaty a & eve of the Rome summing the opening of formal fin negutiations, he still kee there is many a slip being cup and lip, before agreem end-1992

He also considers that a Commission has an imp tional role, even duy, at Duramerel about Commis projects heing pushed & course. The misgring b Esperased in Rume w thielis diterted at the C where hard ben that pipe als next month Mr Dek matte eller unerd only in a context of the transition phase to the lengt Come shown disaff fresh, and not mi The state of the complete alternation

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As well conce said of the state this has comments. David Backs

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put perestroika in balance

THE future of perestroika will be in the balance when the Soviet Union's super-parliament gathers for the next 10 days to consider both new powers for President Mikhail Gorbachev and the proposed union

The Congress of People's Deputies, the country's supreme law-making body, is being asked to approve plans to hold the union together and combat economic chaos while the leadership tries to introduce a market economy.

But as the West mobilises aid to prop Mr Gorbachev.

there are increasing signs that the Soviet leader may already be calling a halt to his own reform drive.

reform drive.

Much will depend on what personnel changes he announces as part of an overhaul of central government involving the appointment of a vice-president and an executive role for the Council of Federation which groups republican tion, which groups republican leaders. A broad coalition of radicals and republican leaders could yet replace the moribund government of Mr Nikolai Ryzhkov, the prime minister.

It also remains to be seen

how the 2,250-strong Congress will react to the draft union treaty submitted by Mr Gorbachev as the basis for negotiations with 15 increasingly restive republics when at least tive republics, when at least four have no plans to sign it.
Mr Gorbachev last month unveiled the long-promised draft treaty for a voluntary union of sovereign states but immediately said republics had no choice but to join it.

He also proposed setting up direct presidential government involving republican representatives - the system foreseen

By Ariane Genillard in Timisoara

ONE year after the first

anti-Ceausescu march which spearheaded last December's

revolution, disillusioned citi-

zens in Timisoara yesterday

turned a poignant anniversary

into a bitter call for the resig-

nation of President Ion Iliescu and his National Salvation

Marching from the Reformed Church of the ethnic Hungar-

ian priest Laszlo Tokes

whose arrest a year ago started the uprising — to the focal point of the fighting in Opera Square, 5,000 demonstrators charted — The revolution is now over and "Bucharest, bold to the started of the started of the square, bold to the square, and "Bucharest, bold to the square, and "Bucharest, bold to the square, and the square, and

help us get rid of the National

Gathered under the same

balcony of the Opera House where members of the emerg-ing National Salvation Front

addressed the revolutionaries a year ago, demonstrators ech-

GREEK police yesterday

hunted scores of escaped con-victs who staged the country's biggest jail break, beating their

guards and locking them up, Renter reports from Athens.

Police said 15 of those who

escaped from Korydallos prison west of Athens at the weekend

had been arrested and 200 police were searching for

Input Price of electricity for

England and Wales for the period from 1st April 1991

to 31st March 1992 ("the

This tender offer is open to

those of sufficient financial

standing, entering into con-

breach of its permission to

Services Act 1986 ("Eligible

Tenderers"). Contracts will

be allocated on the basis of

tracts with whom will not

Period").

another 65 still at large.

Front government.

Salvation Front



Gorbachev: second thoughts?

by the union treaty - as an emergency measure until the treaty was formally signed.

The problem is that Kremlin moves since then have aroused alarm among reformers that Mr Gorbachev may be having second thoughts about real devolution of power to the republics and the introduction of a full-blooded market econ-

omy.

The latest blow came on Fri-day, when the president issued a decree basically trying to restore the long-lost authority of Gosplan, the state-planning agency, and banning the barter deals between enterprises which have become a major form of trade across the coun-

with republics signing direct economic co-operation deals in a bid for more control over their resources, it is difficult to see how the latest presidential decree – which only repeats what an earlier one falled to achieve - can be enforced without a dictatorship to run

the economy.

Mr Gorbachev is under pressure mainly from conserva-

oed the speeches of commemo

rative societies with loud

Striking students were

among the demonstrators, as were workers from 11 factories

in Timisoara who were also

political one, as well," added

Father Tokes at a press confer-

Eight prisoners were caught trying to escape through the prison kitchens. A further

seven, including an Iranian

and two Romanians, were found at homes of relatives

and friends.

Korydallos is Greece's main top-security prison. It has a capacity of 650 but holds more than 800 immates, including a

Palestinian guerrilla charged

ence yesterday afternoon.

purposes.

shouts of "Resign, resign".

tives as well as some radicals to reimpose order from the cen-tre. An alliance of communist officials and military men have proposed a vote of no confidence in the president.
Liberals such as Mr Anatoly

Sobchak, mayor of Leningrad have called for strong government to restore "poryadok" - order - and press ahead with economic reform.

But there has been little so far to reassure other radicals who are against giving Mr Gor-bachev more power. Mr Gorbachev earlier this month replaced his popular interior minister, Mr Vadim Bakatin, with a former chief of the Lat-

Last week, the KGB security agency came out with a series of extraordinary attacks against traditional Soviet enemies - ranging from economic saboteurs to secessionist and dissident forces stirred up by

foreign powers.

After loud protests by radical deputies who want a full congress debate on his declarations, General Vladimir Kryuchkov, the KGB chief appointed by President Gorba-chev, tried at the weekend to back-pedal on his earlier call for a crackdown on even legal

political opposition.

Possible signs are also mounting of an officiallyorchestrated campaign to dis-credit pro-independence forces in Latvia, the weakest link in the Baltic republics' attempt to leave the Soviet Union because of its slim nationalist majority. If President Gorbachev is in fact being misunderstood and his aims are really to outwit ervative opponents, then the Congress provides him with the chance to prove it.

Timisoara tells Iliescu to go national conference with three demands: the creation of a government of national unity, ear-

lier elections and a popular ref-erendum to decide if the

country should be headed by a

presidential system, a parlia-

reported to be on strike.
On Saturday evening, Laszlo
Tokes held a religious cerementary democracy or a con-stitutional monarchy. Its first demand was supits first demand was sup-ported by the six opposition political parties represented in parliament who held a joint convention of their own on the mony outside his church and asked for "a second revolution, not like last year but a peaceful Christian one".

"I don't mean only a spiri-tual abstract revolution but a "I am joyful to see that society is beginning to unite its forces. Until now, we lacked such a technique, but we could He said he supported the achieve much more if we do," said Father Tokes

The Hungarian Democratic Union of Romania, of which Laszlo Tokes is honorary president, is among the six parties

Rioting prisoners took over parts of the jail in October, threatening to destroy it if

their demands for better living conditions and shorter sen-

tences were not met.

newly-founded opposition movement Civic Alliance in its belief that ethnic divisions are currently exploited for political In Bucharest on Saturday, Civic Alliance concluded its calling for a government of national unity.

Am airliner.

Greek police hunt prisoners

over the 1982 bombing of a Pan Prisoners convicted of treason for involvement in the 1967-1974 military dictatorship are also held at Korydallos.

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are turned down.
But "economic refugees" spend years waiting at taxpay-ers' expense before their cases are heard.

'insider trading'

inquiry By Kieran Cooke in Dublin

MR Charles Haughey, the Irish prime minister, has ordered an investigation into the leaking of official figures to the Dublin stock exchange which led to what is believed to have been large-scale insider trading at

the end of last week.

Mr Haughey has asked the
Central Statistics Office, the Department of Finance and his own office to find out how information on official inflation figures became known to certain people in the market well in advance of an official

Last Thursday, the govern-ment reported an inflation fig-ure of 2.7 per cent, signifi-cantly better than expected. canty better than expected.
Such a figure would have
tended to drive the price of
government gilts higher. Brokers say that in advance of the official release there was a sig-nificant burst of activity on the Dublin exchange as up to

I£80m of gilts were purchased. Mr Michael Noonan, finance spokesman of the opposition Fine Gael party, said that if the international financial community thought the Irish government was "playing favourites" or had "sweetheart arrangements" with certain people to whom information was leaked, Dublin's reputation as a financial centre would be seriously damaged. Another opposition member

of the Irish parliament said it was outrageous that a small number of individuals should have access to such advance information, enabling them to

make "a huge killing".

Over the weekend, Mr
Haughey made efforts to play
down the incident, describing it as "unfortunate and regret table". Mr Haughey rejected the idea that Dublin's financial reputation would be harmed and said far worse events took place elsewhere.

Germans warn on 'wave of refugees'

THE interior ministers of Germany's 16 federal states, fearing a wave of migration from eastern Europe and the Third World, demanded at the weekend an urgent reform of the country's liberal asylum law, Reuter reports from Pots-

Mr Dietmar Schlee, the inte-rior minister of Baden-Würt-temberg, who chaired the meeting, said new legislation was needed fast to halt a grow-

was needed last to half a grow-ing flood of refugees. Almost 200,000 refugees sought political asylum in Ger-many this year, compared with 120,000 in 1989.

The growing wealth gap between east and west and north and south, travel liberalisation in eastern Europe and continuing crises in Asia and Africa mean a further increase in the flow of refugees to Europe must be expected," the ministers said in a joint state-

ment. The vast majority of applica-tions for asylum in Germany

Soviet super-parliament may Dublin calls Retailers broaden their outlook

Single-market law is reshaping the industry, writes John Thornhill

HE biggest supermarket chain in Spain is run by the French-owned Carrefour group. Delhaize Le Lion, the Belgian retailer, has a 40 per cent interest in Pingo Doce, Portugal's largest supermarket

operator. Since 1945, European food retailers have made around 250 operational investments outside their own countries.

Such facts belie the common impression that European retailing has been, and will remain, immune from the influences of internationalisa-

Though cross-border activity has been less hectic than in many other industries, retailers are increasingly having to broaden their outlook and think European. Even if they do not operate on a Europe-wide basis, it is probable that many of their suppliers and a growing number of their competitors will do so.

The UK has provided a

graphic example in recent months with the entry of Aldi, the German discount chain, into its food retailing market. Although Aldi has only opened 13 stores in Britain, it

has prompted a storm of controversy in the industry by cut-ting its prices to the bone in an attempt to build market share.

Ikea, the Swedish furniture

chain, has also had a significant impact on the furniture industry worldwide and at the end of 1989 had 83 stores open in 20 countries. Although EC single market legislation has little direct bearing on retailing, it has encouraged trends which are indirectly shaping the industry. They include: The increasing internation-alisation of manufacturers and suppliers. The European food industry has seen many cross-border acquisitions over the

tional companies such as Nestlé, Unilever and BSN. As such companies have spread across Europe, there has been a growing trend among retailers to mirror such developments by joining together to strengthen their buying power. Argyll Group of the UK, Casino of France, and Ahold of the Netherlands have jointly formed the European

last few years, which have fur-ther strengthened interna-

Retailing Alliance (ERA). The alliance's buying arm, Associated Marketing Services, also includes Migros, of Swit-Belgium, and many of them are seeking to expand into the

zerland, Dansk Supermarked, of Denmark, and ICA of Swe-

The three core members of ERA, which have aggregate sales of about £12.6bn, work together in quality assurance, information technology, distri-bution and logistics. There is also a cross-fertilisation of product knowledge: Argyll mports Casino's French table

The European co-operative movement has also formed an international organisation, called Inter Co-op, one of whose functions is to organise joint buying. In western Europe the members of Inter Co-op have 23,000 stores and a

turnover of \$44bn. The development of pan-European tastes. Market research studies are beginning

Aldi, the German chain, has only opened 13 stores in Britain, but has prompted a storm of controversy by cutting its prices to the bone in an attempt to build market share

to show the emergence of similar buying patterns and habits across European boundaries. For example, a wealthy banker in Frankfurt may buy as many convenience products - such as ready-prepared micro-wave meals - as a colleague in

The development of Euroers bar and the development of pan-European advertising campaigns, particularly via satel-lite television, are likely to reinforce such developments. But in spite of the best efforts of the advertising indus-try, most of these brands have as yet been restricted to luxury goods, such as Gucci fashion items or Boss clothes. The saturation of home

markets. Many retailers, espe-cially in northern Europe, have reached saturation point in their home markets and have to look abroad for growth. The top 20 retailers in Europe in terms of turnover are all from Germany, France, the UK, the Netherlands, or southern Europe.
GIB Group, the Belgian
mass-market retailer which accounts for about 13 per cent

highly fragmented markets of

of the country's retail trade, is steadily expanding its trading presence in Spain and France. Ahold has a similar dominance in the Netherlands and has been developing international links through ERA.

Meanwhile, Kinglisher, formerly Woolworth, of the UK, has been looking to the Continent to bolster its electrical retailing business, probably by acquisition or joint venture.

This follows an attempt to take over the rival Dixons chain in the UK, which was blocked by the Monopolies and Mergers Commission on com-petition grounds.

In food retailing, northern European retailers have been the most active in looking to expand across borders. In a study on the internationalisa-tion of food retailing prepared for the University of Stirling's Institute for Retail Studies, Mr Steven Burt has identified 246 international "actions" undertaken by European food retail-ers between 1945 and July 1990 an action being defined as any form of operational invest-ment or the formation of buying or marketing alliances.
More than 80 per cent of

these actions were accounted for by retailers from France, Germany and the UK. Belgian and Dutch companies were also active.

The investments spanned 44 countries. The US was the most popular destination, receiving 26.4 per cent of the investments, followed by Spain (16.9 per cent) and Italy (5.7 per cent). But for all the forces shaping a more homogeneous European market, marked dif-ferences still exist, and are likely to persist, in national

Local habits and cultures, planning restrictions and infrastructure all affect the success or failure of a retailing format and can easily derail the efforts of new entrants.

For instance, Greece has idiosyncratic shopping hours. Italy has stringent planning restrictions. And any entrant to the Danish market would have to contend with a formi-dable co-operative movement whose shops account for 35 to 40 per cent of retail sales It can also be a mistake to presume knowledge of what ther nationalities want. When Marks and Spencer entered the French market in 1975, it assumed French shoppers would be more fashion conscious than their UK counter parts and would want to buy

But it quickly found that they wanted the same type of practical clothes obtainable in the UK and would go to fash-ion houses to buy their fashion

What is essential is to estab lish what the marketing profe sion would call a "unique sell

ing proposition."
C&A, the privately-owned
Dutch chain of clothing stores. Body Shop International, the UK natural cosmetics group, Benetton, the Italian fashion



THE EUROPEAN MARKET

successful international retailers which have developed a distinct style. Each has a clearly defined

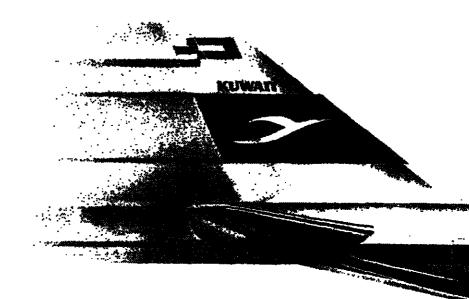
trading format and product range which enables it to distinguish itself in every European market.

The specific advantage can vary widely. For international shion chains such as Benetton and Stefanel of Italy or Hennes & Mauritz of Sweden it is a readily identifiable cloth ing style.
For Aldi it is price differenti-

ation. For Body Shop it is an environmentally-based appeal. Retailing formats can be translated into other countries, it seems, as long as the message is clear enough in the first

The Internationalisation of European Food Retailers. Steven Burt. Institute for Retail Studies, University of Stirling, Stirling, FK9 4LA. 0786 67386.

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Meeting the challenge and flying high.

personal peace initiative raised hopes of revived Arab media-

tion efforts. Algeria has tradi-

tionally played a conciliatory role in solving inter-Arab dis-

putes that swirl incessantly

about the region.

The Algerian official said:

"At the moment, there is no Algerian mediation or plan on this subject. The only Algerian goal is to support, through frank and sincere dialogue, any

dynamic of peace able to ensure conditions of stability and security in the region." Mr Benjedid became the first

head of state to visit Lebanon

since President François Mit-terrand of France in 1983,

when he made a surprise stop on his way from Damascus to Cairo. The Algerian leader's

visit to Beirut was seen as a

vote of support for present

support - will bring to more than 30,000 the number of Brit-ish military personnel in the

The Fourth Brigade, together

with the Seventh Brigade already in place, forms the First Armoured Division, of

which Maj Gen Smith took

charge in October. He was previously deputy commandant of the army staff

college in Camberley. Maj Gen Smith said he was

not troubled by the possibility that his men may not see action until the Saudi summer

in March, when temperatures soar from the present winter 80

symbolic than anything else, but it will free international

financial institutions to deal

more openly with us. The importance of the development cannot be underestimated."

sanctions will remain in place, despite the EC move. Community bans on imports of iron, steel and gold coins will remain in force until

Pretoria carries out its promise

to repeal the Group Areas Act and the Land Acts - key

The international oil and

arms embargoes will remain, as will the freeze on sporting contacts and restrictions on

cultural and scientific exchanges. US trade and investment sanctions remain

the last two decades by federal

Mr Mendes's main victory

was to save. in September 1988.

a clearing owned by the Alves family, which the government thendeclared a reserve. He was

On the first day of the four-

day trial, Darcy Alves admitted that he had killed Mendes.

However, the father insisted he

The crucial testimony came

from a 15-year-old boy, Genesio

Ferreira da Silva, who had worked at the Alves ranch.

discussions between the father and the son when plotting the murder, and told of a barbecue

held afterwards in celebration.

more landowners were involved in the plot. Mr Márcio

Tomas Bastos said: "I have no

doubt there were more people

He promised to continue

investigations into those who "used Darcy and Darli, but

recreation facilities, and the

introduction of more flexible

work schedules.
In the same district, an asso-

ciation of ship and boat build-

ers has devised "The Young Man Project" to freshen its

image and bring in young

workers to the unfashionable

fromthe "three Ks" that young

Japanese now avoid when

choosing a job – kitanai (dirty), kitsui (difficult), and kiken (dangerous).

The labour shortage is par-ticularly serious among sub-contractors to the larger, bet-

ter-known manufacturing com-

panies, whose size and reputa-tion attract new employees.

But better-known companies

are also making greater demands on their machine sup-

pliers in anticipation of future staff shortages, and are keen to make their factories interna-

tional showpieces. Mr Takeshi Yano, Sintoko-

gio's managing director, said:

"Senior executives of the auto industry don't want casting to

be a dirty process. The auto executives complain that their production lines are clean, but

casting is still not so beautiful."

industry. Shipbuilding suffers

The prosection lawyers insist

He gave detailed evidence of

government incentives.

killed two months later.

was not involved.

The bulk of international

S Africa inches in from the global cold

Patti Waldmeir reports on reaction to the EC lifting its ban on new investment

OMING in from the Cold read the banner headline yesterday in the Sunday Times, South Africa's biggest-selling newspaper, which announced with giee the European Community decision to lift its ban on new investment in South Africa.

The largest companies in the country were clearly delighted by the first significant relaxation in sanctions imposed by the international community to try to force an end to apart-

Black organisations were predictably peeved: the Azanian People's Organisation, a radical black consciousness group, said the decision was to be expected because "white people support other white people".

The African National Con-

gress (ANC) regretted the step, which was taken despite a per-sonal appeal to EC leaders from Mr Nelson Mandela, ANC deputy president, asking them to maintain sauctions.

A BRAZILIAN cattle rancher

and his 23-year-old son were each sentenced to 19 years in prison, late on Saturday, after

a jury had found them guilty of the murder of Chico Mendes,

The seven-member jury, in

the far-western Amazonian town of Xapuri, decided that

Mr Darli Alves da Silva plotted

the shotgun killing of Mr

Mendes, two years ago, and that his son Darcy Alves Per-

the verdict serve as an exam-ple for the fight against rural

violence throughout Brazil.

There have been 1,200 mur-

ders of rural workers and

union leaders in the country over the last decade, yet only

two gunmen had been sentenced before the Mendes trial. The rural potentates behind

these killings used not to be

brought to trial. Now, there could now be a wave of such

The father and son were brought to trial only because of

By Robert Thomson in Tokyo

JAPAN'S severe labour

shortage is forcing companies to find new ways of attracting staff. Competition for new

employees is particularly tough in Japanese factories, where the pressure to produce

a more pleasant working envi-

ronment is causing a change in attitudes to machine design.

Machine manufacturers are

now receiving an extra specifi-cation in their orders – that

the machine should look good.

rally ask their equipment sup-

pliers for faster, more accurate machines, which in themselves

save labour. But around

Nagoya, where the labour shortage is most severe, com-

panies have begun to order col-

our co-ordinated, sleekly

Mr Hideo Shindo, assistant director of the industrial

machinery division at the Min-

istry of International Trade

and Industry (Miti), said that having satisfied the demands

for precision, speed, and systemisation of machine tools,

suppliers are now under pres-

sure to consider the aesthetics

Japanese companies natu-

The prosecution asked that

eira carried out the crime.

Amazonian rainforest.

For all the rhetoric, the move is likely to prove mostly symbolic: it will take more symbolic: It will take more than a blessing from the EC to persuade investors to put their capital at risk in a country with high inflation (14 per cent for the year to last October), low productivity, a poorly skilled workforce, and violence which has killed more than 1,000 people in the past four

Anglo American. South Africa's largest mining house, said in a statement that the move was a big step towards ending sanctions and normalising relations between South Africa and the international community. But Mr Bobby Godsell, group director of pub-lic affairs, pointed out that the decision removes only a "political bar" to investment.

In order to attract invest-ment, we have to persuade investors that we are not on the way to becoming a Beirut in respect of violence, or an Argentina in respect of our

the international attention on

the case and the concern of the

new president, Mr Fernando

Collor, to change Brazil's poor image on human rights issues. Regarded as the world's first

ecological martyr, Chico Mendes came to the foreigners'

Japanese industry in recent

years have shown a strong

desire for cleaner and more compact machinery. At the

same time, the labour shortage

has worsened, the drive for labour-saving automation has

intensified, and better-looking

companies to employ a Nagoya

design house, Cobo, whose president, Mr Shinichi Yama-

mura, is a former designer for

Mitsubishi Heavy Industries.

Larger companies have their

own design departments.

which are under orders to

beautify machines. Cobo is the largest freelance house in the region. "Personality and character are becoming important in machine design."

in machine design. Until now,

there has been a strong empha-

sis on practicality, on the sim-ple act of production, but even

some smaller factories are

thinking about these new aesthetic points," Mr Yamamura

Cobo has recently redesigned an unsightly overhead factory conveyor vehicle with a design

ture to consider the aesthetics. reminiscent of a sports car and finished in bright yellow, with sleek black trim. A carton-printing machine comes in a

The trend has encouraged

machines have emerged.

Mendes killers sentenced to 19 years

Judge Adair Longhini reads the jury's verdict as the two convicted men stand before him in the court

Japan discovers beauty of functionalism

attention by mobilising rubber

tappers and indigenous tribes

in a Forest People's Alliance,

This tries to save the rainforest

from destruction by developers and large landowners who have been encouraged to move into Brazilian Amazonia over

sensuous blue, and a crawler

crane designed by Cobo for

Sumitomo Construction is a monument to minimalism.

machines, but argues that

labour pressures, combined with the wealth of Japanese

companies, have given the

movement momentum. There

are now practical reasons for

companies to buy machines

Division believes that a solu-

tion to the labour shortage

should come from re-employ-

ing retired workers and hiring

more middle-aged women. The problem is that labour is badly

needed in the manufacturing

and construction industries,

which have not been thought suitable places for the alderly

Machinery manufacturers themselves have difficulty in

attracting new workers, as there are 2.3 jobs for every

applicant in the Nagoya area, a machine production base. In

the past two years, firms have attempted to increase their

appeal with the renovation of staff dormitories, improved

Miti's Business Behaviour

that are pleasing to the eye.

Mr Yamamura does not suggest that Japanese designers are the first to make stylish

inflation rate," he added. investors will also wish to see clarification of the ANC's economic policies before committing funds. The organisation's policy on the economy is still evolving, and its most recent policy document appeared to move away from

However, the EC decision will have an impact on the morale of local business, which recently began to see the light at the end of the tunnel on sanctions.

alisation. Even so, it makes clear that there would be a high degree of state involve-ment in any ANC-dominated Prof Jan Lombard, deputy

in force. Of these, the oil and arms governor of the South African Reserve Bank, the central bank, greeted the move as "very good news indeed." The Sunday Times article quoted him as saying: "At this point the lifting of the ban is more embargoes have imposed a heavy price, by forcing Pretoria to stockpile large quantities of oil and to pursue self-sufficiency by investing in industries which are not com-

mercially viable. The sports boycott has had the greatest psychological impact on a sports-mad country.
Yet the ANC itself provides a

THE MIDDLE EAST

By Tony Walker in Cairo

ALGERIA'S peace shuttle,

aimed at promoting an Arab solution to the Gulf crisis,

appeared to be faltering at the weekend in the absence of any

sign of Iraqi flexibility.

President Benjedid of Algeria
was due in Cairo last night on
the seventh leg of a regional
tour that has aiready taken

him to Jordan, Iraq, Iran, Oman, Syria and Lebanon, in apparently fruitless efforts to advance a regional peace ini-

Mr Benjedid, in his talks in Baghdad late last week, is

believed to have advanced pro-posals for the simultaneous withdrawal of Iraqi and US troops from the Gulf, leaving the way open for a pan-Arab

contingent to assume responsi-bitles for security in a transi-

tional phase.

Syria was reported to be unenthusiastic about the pro-

THE FULL complement of

British troops in Saudi Arabia will be on an offensive footing

will be on an offensive footing and ready to fight by early January, their commanding officer said yesterday.

Maj Gen Rupert Smith, making his first tour of troops in the desert, also said that his forces would be ready to fight through the scorching Saudi summer if necessary.

numer if necessary. He said that the main

build-up of additional troops

and armour, the deployment of which was announced late last

month, would begin arriving in Dhahran this week and be in place just after Christmas.

"The full division will be

By Judy Maltz in Jerusalem

Algerian peace shuttle

posal, as was Saudi Arabia

which has been cool towards the Benjedid mission from the

start. Egypt has not expressed a view publicly, but is likely to share Syrian and Saudi misgiv-

Lack of progress towards an Arab solution, and the contin-

ued wrangling between Bagh-dad and Washington over dates for officials' talks. has dimmed

hopes in the region of a peace-ful resolution of the crisis. There are fears that the slide

towards war could now take on

towards war could now take on a momentum of its own. Algeria is insisting that Mr Benjedid's mission was not aimed at mediating between Arab protagonists in the Gulf conflict. An official quoted by Algerian APS news agency said the president was "sup-porting the dynamic of peace."

porting the dynamic of peace."
But news last week that Mr

UK force 'soon on war footing'

here and ready to fight early in January," said Maj Gen Smith, after arriving by Puma helicop-

ter to meet members of the Royal Scots Dragoon Guards in the shadow of their Challenger

However, military officials

and the soldiers already deployed agree that it will take the newly arriving troops between three and five weeks

to acclimatise fully to the

The deployment the the Fourth Armoured Brigade -

an extra Challenger tank regi-

ment, two armoured infantry battalions, plus reconnais-

harsh desert.

Israel deports Palestinians

frustrated by Iraqis

damning indictment of the effectiveness of sanctions. A working paper presented to its national conference at the weekend - and rejected out of hand by delegates - conceded that "trade sanctions are making little impact on the econ-omy, which continues to experience international trade surpluses," that "economic links with the [rest of the] African continent seem to be grow-ing", that the Soviet Union, once the ANC's staunchest backer, has decided to set up an "interests section" in the Austrian embassy in Pretoria and that net capital outflows, which totalled R30bn (26.1bn) from 1985-89, have been reversed (recent central bank figures show a R1.5bn net capital inflow in the third quarter this year, the first in three

THE PAKISTANI government set in motion at the weekend its planned privatisation of state-owned banks, inviting bids for shares in the first, Muslim Commercial Bank.

bank employees. Bank union leaders have opposed privati-sation, fearing it means branch closures and job losses. After a meeting of union leaders in Rawalpindi, Mr Habibullah Juneidi, sec-retary-general of the federal organisation for financial sec-tor employees, said that bank unions had decided to oppose

not result in unemployment. He told a public meeting that a new labour policy, to be announced soon, would safeguard workers.

emerged, according to Western diplomats in Islamabad, from upsing to Pakistan by a senior US official. Dr Henry Rowen, Assistant Secretary of Defence for International Security, yesterday ended a three-day visit. He met General Asiam Reg. the country's military chief and Mr Yaqub Khan, Foreign Minister. The US embassy in Islamabad said: "The US and Pakistan agree on the impor-tance and desirability of

Earlier, Pakistani officials had said that their country would not ratify the international nuclear non-proliferation treaty unless India did so.

Pakistan sets plan for bank privatisation into motion

The government will sell 26 per cent of the equity and hand over the bank's management to the private sector, after selecting a bid from offers made by December 26, said terms advertised in national newspapers.

per cent to the public, and the government will retain 49 per

THE ISRAELI government has reacted to growing Arab vio-lence by reinstating a policy of deporting Palestinians. It ordered the expulsion of four activists at the weekend. Mr Moshe Arens, Defence Minister, said yesterday that other deportations would follow. Several serior ministers called on the government to

use the death penalty against those who had attacked Jews. The expulsion orders, which drew condemnation from the US, were issued by the Defence Ministry after three Jews were stabled to death on Friday by Arabs in a Tel Aviv factory. Israel had suspended its expulsion policy in 1989, in response

to US pressure.
The four Palestinians the Gaza Strip - are believed Mr Arens. Members of Hamas to be organisers of the fundavowed, in a leaflet issued yes-

for the Friday attack. Palestinian lawyers in the Gaza Strip said they intended to appeal against the order. All such pre-vious appeals have been Eight Jews have been stabbed to death by Arabs

mentalist Hamas movement,

since the killing on October 8 of 18 Arabs on Jerusalem's Temple Mount by Israeli police. The army recently began to restrict the number of Palestinian residents of the Occupied Territories allowed to enter Israel.
"I imagine the expulsions

decided on yesterday will not be the last, and we will not hesitate to use this means in those cases where, in our opinterday, to continue their attacks against Israeli citizens. Mr Binyamin Netanyahu, Deputy Foreign minister, brushed off US condemnation of the deportation policy: "The key question is - how can we strengthen our deterrence against knives and murderers?

• The 21-member Arab League, in a statement issued in Cairo last night, condemned what the struggling Palestinian people are subjected to of success waves of repression brutally carried out by the Israel occupation authorities," Tony Walker adds from Cairo. "It appeals to the international community, particularly the permanent members (of the UN Security Council) to impletions on banning expulsion of

Death toll in aftermath of Fez religious riots may reach 100

By Francis Ghiles

RIOTING in the old religious city of Fez, in the wake of a general strike last Friday, left a death toll estimated unofficially at up to 100. This was the first such

flare up in Morocco since 1981, when clashes in the economic capital, Casablanca, claimed a similar number of lives.

The official toll said only five people had died and 127 been wounded. However, trade union leaders and local doctors put the deaths at 100, many of them soldiers.

A doctor added that families of demonstrators did not report their dead or wounded for fear of reprisals, and it was customary for the dead to be buried secretly at night.

secretly at night.
Two factors lie behind the

First, Moroccan workers have seen their standard of liv-ing decline in recent years, as prices have risen more rapidly than their often meagre wages, and subsidies on a range of basic foodstuffs have been cut.

Morocco has followed a series of IMF readjustment plans since it started rescheduling its foreign debt in 1983, all of which have meant restraint on often-high government deficits.
The old artisan class, partic-

ularly prominent in Fez, has also been badly affected by these policies. Second, the Moroccan

unions, and the many younger technocrats who have been

promoted in recent years, are less and less willing to accept the autocratic and often corrupt ways of the government under Dr Ahmed Laraki, who

minister. Two days before the strike, the unions called for greater democracy and a dialogue with the authorities to discuss social and economic problems. To date, no Moroccan has dared criticise King Hassan himself – union leaders welcomed his possible role as a

is seen as an ineffectual prime

In spite of the violent rioting in Casablanca in 1981 and in the northern Rif area in 1984, the king has benefited from Moroccan enthusiasm for what many see as their "sacred" cause in the Western Sahara, a form of Spanish colony which Morocco took over in 1975 against strong opposition from the Polisario Liberation

Negotiations involving Mr Javier Pérez de Cuéllar, UN Secretary-General, have been under way to find a settlement for the past two years. Recent reports from Amnesty International - and a scathing best-selling book in France, Our Friend the King by Gilles Perrault – have made King Hassan's task no

Front

By pinning responsibility for the many abuses of human rights recorded in Morocco squarely on the monarch, they have undermined his author-

A last factor may well be at work, though it is difficult to gauge its influence - the extraordinary freedom which has been on display in neighbouring Algeria since

1988. The Maghreb countries may well be at odds at governmen-tal level, but their peoples are avid followers of what is going on next door.

Spanish Prime Minister

Felipe Gonzalez plans to meet Dr Laraki in Fez this week for their first summit, despite riots in the city, the Europa Press news service said yesterday, Reuter adds from Madrid.

Dozens of demonstrators gathered outside Morocco's embassy in Madrid to protest against military repression of the weakend riots. The meeting between Mr Gonzalez and Mr Laraki, sched-

uled for December 20-21, is expected to mark an end to years of mutual mistrust between the two countries. Mr Gonzalez, talking to

reporters at a European Com-munity summit in Rome on Saturday, expressed grief over the riots but said his plans to go to Fez were unchanged. Europa Press said.

Spain said it would grant

Morocco a \$16m credit. The two countries plan to build a bridge or tunnel to connect Europe and Africa across the 15-kilometre strait of Gibraltar.

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Emma Stevenson 071-407 5763

By Farhan Bokhari in islamabad

The new management will be required to sell another 25

The MCB privatisation will be important in determining theresponse of investors and

the government's plans.
But Mr Ejaz-ul-Haq, Labour Minister, said the government will protect workers' rights, adding that privatisation will

nuclear proliferation in the south Asian region has

regional approaches to reduce tensions in the area, and as a reflection of new international

New En Route Centre for the UK Civil **Aviation Authority**

The United Kingdom Civil Aviation Authority (CAA) requires a New En Route Centre (NERC) for air traffic control to be in operational service by the end of 1996.

The new Centre will be one of the largest in the world. It is intended to cater for the growth in air traffic movements over the major part of the United Kingdom for the next

The CAA is issuing a comprehensive briefing document to industry worldwide for information, planning purposes and

The CAA is also seeking expressions of interest from industry in bidding for project definition, implementation and integration on a prime system or any other basis.

If your company has not received a copy by 20th December 1990 and wishes to do so, please contact:-

Mr C Smith **Civil Aviation Authority** Contracts and Purchasing Branch T3, Gate 1, CAA House 45-59 Kingsway London WC2B 6TE



Telephone: 071-832 6344 Fax: 071-832 6326

Turnout heavy in Haiti

ARMED soldiers and a radical priest, policemen guarded polling sta-

ARMED soldiers and policemen guarded poling stations in Haiti yesterday, amid fears that right-wing gangs would try to interrupt voting for a president and legislators in the Caribbean republic.

The turnout was heavy with The turnout was heavy, with long queues at many polling stations before they opened. Just over 3m Haitians are on the maintains.

the register.
The last election, in 1987, was aborted after armed thugs, with the tacit support of the army, murdered 34 people waiting to vote. The army has said it will support the elections and the new government.
The new president, who may not emerge till after a run-off, is to be installed in February.
The size of electoral rallies in the past fortnight indicates that a strong contender is Mr Marc Bazin, a former economist with the World Bank, and Mr Louis Dejole, son of an opponent of the Duvalier dictatorship.
Political tension has been

high in the country of 7m peo-ple over the past ten days, after eight people died from a bomb blast at a rally held by Father Artstide. The attack was blamed on the remaining tontons macoutes, the rump of the private militia of the Duvalier dictatorship.

The macoutes have been

angered by the refusal of the electoral authorities to allow their former leader, Mr Roger Lafontant, to contest the elec-The result will be known in

four days, according to Haitian officials.

Helen Day 071-407 5751

WORLD ECONOMIC INDICATORS FOREIGN EXCHANGE RESERVES (LISSON)

51,850 68,799	Sep. 90 49,414	Aug.'90 48,174	Oct. '8
	68, 102	68.072	77,790
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16,337			14,621
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29,264	26,010	25,786	22,99
	66,086 33,049 16,337 Sep.'90	66,086 66,422 33,049 32,951 16,337 15,877 Sep.'90 Aug.'90	66,086 66,422 86,984 33,049 32,951 32,985 16,337 15,877 15,834 Sep.'90 Aug.'90 Jul.'90

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FINANCIAL TIMES MONDAY DECEMBER 17 1990

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NDAY DECEMBER 17 1990

bearing bear a marriage paragent pour initiative may hope of revived Arab may tank refere. Alteria has independently played a conclusion role in solving inter Arab in about the relative that wire increasing about the region. tent the transfer official and the state of "At the montest there At the moment, there is Alection methods or place this subject. The only alection is to support those forms and encere dataget of spanic or peace also support the continue of state and security in the resonant security in the resonant security in the resonant spanic of state to visit letter president forms from the forms of state to visit letter president from the forms of state to visit letter forms Miles bispipali banco terrand of Frances in terrand of Frances in terrand of France in inches a surprise in the terrand with the way from Damascon Courts. The Algerian leader visit to bearing was seen as verte of support for present of the bearing place to be warfed in city.

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But establishing operaborder insurance issues.

European service concept.

Through Zurich Inter- to crucial information. national in the UK, Belgium,

This concept, together employees. with a full range of products UK. Europe. Worldwide. market leader.

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Should your requirements extend beyond EC borders, you tions in foreign countries also can still stay with us. The means coping with cross- Zurich is one of the world's leading insurers. We serve all Not to worry. The Zurich major industries in some Group can now solve these 80 countries. ZURINET, our issues through a new pan- computerized worldwide data network, gives us instant access

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MP calls for incentives to end 'savings trap'

RESTRICTIVE tests on capital for assessing welfare benefits should be abolished because they create a "savings trap", Mr Julian Brazier, Conserva-tive MP for Canterbury, argues in a pamphlet published today. In a memorandum for the Bow Group, a centre-right Tory think-tank, Mr Brazier argues that higher savings would enable interest rates to be lowered without causing an infis-tionary surge in spending. On 1989 figures, net house-hold savings in the UK account

for 5 per cent of disposable household income, compared with 15.3 per cent in Japan and 12.2 per cent in Germany. Mr John Major, the prime minister, has put much empha-sis on "the savings culture". In his speech at his adoption as party leader last month, he said that in the 1990s "we must work to extend savings fur-

ther" for social and economic Mr Brazier states that the main difference between the UK and countries with a higher savings ratio is not the real rate of return, but the way the welfare system puts savers at a disadvantage.

In particular, the paper looks at the large number of families where the breadwinner is, or was, consistently in work,

though on a modest income. The disincentives for this group to save are so great, Mr Brazier says, that there is no sense in having savings other than those invested in a house or pension fund.

Some penale from combined. Some people face combined rates of tax, inflation and with-drawal of benefits of 200 per

cent to 300 per cent of the nominal return on their savings.

The cost of removing the tests for housing benefit, community-charge benefit, family credit and income support would be about £132m, the pamphlet says. That would be far outweighed by the "resultant restraint on spend-

Mr Brazier plans to discuss his proposals with ministers in the Treasury and the Department of Social Security.

Mr Michael Meacher, shadow social security secretary, is to meet Mrs Vasso Papandreou, the EC social affairs commissioner, in Brussels today to present a Labour report showing that the UK spends less than the European

average on a range of social security benefits. British people will be shocked to learn just how badly we compare with our major competitors," Mr Meacher said.

Indexed National Savings attract biggest net inflow

NATIONAL SAVINGS raised £101.8m net in funding for the government last month The fifth issue of indexlinked certificates attracted a net inflow of £121.7m which was the biggest net inflow of any of the National Savings products. Total receipts for index-linked certificates were

£1545m.
Index-linked certificates attract money from small investors because they offer a guaranteed tax-free return above the rate of inflation provided the money is invested for five years.

National Savings has recently launched an advertising campaign to increase awareness of its tax-free prod-ucts, particularly among non-taxpayers such as retired cou-ples and married women who now have their own tax allow-

Fixed-interest Savings Certificates repaid £81.9m last month, due mainly to the fact that the mature certificates now offer a much less competi-The total invested in National Savings at November

tive interest rate.

30 was £36.21hm.

Getting to the heart of the nuclear question

David Green on uncertainties which mean that Britain's first PWR may be its last

THE "heart" of the Sizewell B nuclear power station arrived in Suffolk at the weekend after a 1,200-mile journey by river and sea from a factory in central

As the barge carrying the flom pressure vessel for the station edged along its last lap to Sizewell, officials in the industry were wondering whether Britain's first pressurged water received. (BWP) ised water reactor (PWR) would also be its last. Until November last year, Framatome, the French pro-ducer of nuclear reactors in which the French government has a stake, was expecting to supply Sizewll B with three

supplied the original abutonne vessel for the project.

The three others would have completed the £6.2bn programme planned by Nuclear Electric, the state-owned generating company which was then part of the Central Electricity Congrating Reard.

more of the vessels in which nuclear reaction takes place. It supplied the original 450-tonne

Generating Board.
However, last year the nuclear element of the CEGB was suddenly withdrawn from electricity privatisation amid signs that investors were deeply worried about the industry's costs. The govern-ment ordered a halt to stations planned to follow Sizewell B, pending the outcome of a

That decision has not ruled out the building of privately financed nuclear plants after rivatisation. However, considerable cost uncertainties will have to be

resolved before the UK nuclear industry is likely to be revived

to complete power stations on time and within budget and to generate electricity economi-The advanced gas-cooled reactor (AGR) programme of the 1970s was riddled with construction cost increases and time overruns while operating performances were mediocre. A government review of

nuclear economics has been set for 1994, the year Sizewell B is due to be commissioned. The capital cost of the project has risen over the past 15 months from £1.69bn to £2.03bn (both expressed in March 1987 prices). About £170m of the

increase is blamed on design changes and extra costs of instrumentation and computer software. The rest is a conse-quence of the abandonment of quence of the abandonment of the rest of the PWR building programme. Costs which would have been spread across four power stations have had to be concentrated on one.
Nuclear Electric has set a 63-

month target for the main con-struction phase. It is now nearly half way through that period, and is four weeks behind schedule. The company says it is confident delays in commissioning will be avoided, in spite of a continuing lack of progress in designing a vital

which must be resolved by the time of the 1994 review involves the long-term cost of dealing with radioactive waste, including the residue from the reprocessing of spent fuel rods by British Nuclear Fuels at Sellafield, Combria. Nuclear electric has for some

time been considering the eco-nomic merits of a dry store for spent fuel at Heysham, Lanca-shire. It would be designed pri-marily for spent AGR fuel, but could also take PWR fuel. Delay and uncertainty continue in the search for a reposi-tory for intermediate-level radioactive waste, now stored

at Sellafield, and for a successor to the dump for low-level

1985, the Drigg dump was expected to be filled by the early years of the 21st century,

but new waste-compaction techniques may extend its life-time to the year 2050.

The third uncertainty, and perhaps the most significant threatening the future of nuclear power in the UK, is over the cost of de-commission-

No full-scale commercial reactor has so far been de-commissioned anywhere, and cost estimates are constantly changing. The department of energy has kept a closer check on revised estimates since the government decision to with-draw nuclear power from elec-

tricity privatisation.

The main factor likely to affect costs is the period over which de-commissioning is car-ried out. After removal of all ned our. After removal of an spent fuel, reactors can be left alone to enable the radio-activity to subside. The longer plant is left, the greater the reduction in radioactivity and the lower the cost of dismantl

Instead of dismantling the reactor core, a process which would be very expensive, Nuclear Electric has been considering whether to surround it with concrete and cover it with soil. With growing envi-ronmental concern about emis-sions of harmful gases by coalfired power stations which now meet more than 80 per cent of UK power damand, the nuclear industry believes the question is not if new plants will be

Successful completion of Sizewell B may bring the

Average drinks bill is £1,000

NEWS IN BRIEF

THE AVERAGE British household will have spent more than £1,000 this year on alcoholic drinks in spite of the consumer squeeze, according to a report by Verdict Research, retail analysts, writes Philip Rawstorne. Expenditure on spirits, beer and wines is expected to total £21.7bn.

Overall sales have risen by 10 per cent in real terms since 1983. Pubs and restaurants account for three quarters of all sales, but take home sales - now worth some 25.4bn are growing faster.

Wines comprise the most buoyant sector of the take-home market. Consump-tion per head has increased by 55 per cent over the past decade, while beer has declined decade, while beer has decimen by 9 per cent and consumption of spirits has remained static. The grocery trade has bene-fited most from the take-home growth. It now accounts for 47 per cent of sales, with super-markets dominating. Britain's two largest drinks retailers are J. Sainsbury and Tesco, each with just under 8 per cent of the market. The Co-op is next

with 6.5 per cent. Spending at specialist offlicences has increased by 66 per cent over the past seven years, and they now have a 42 per cent share of the market. Thresher, the Whitbread subsidiary, leads with 6.2 per cent. Verdict on Off-Licences, Ver-dict Research, 112 High Holborn, London WCIV 6JS, £595.

Detergents squeeze SALES OF liquid detergents.

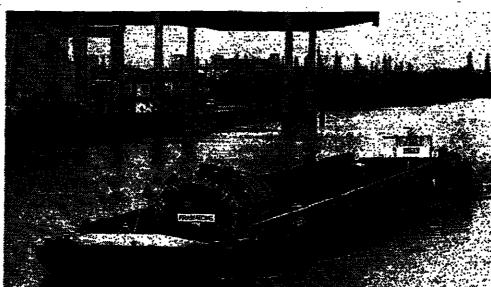
the fastest growing laundry product in the 1980s, are likely to peak early in this decade. according to a report published today by Euromonitor, the London-based market analyst. Liquids are already being squeezed in the US by new products such as detergent pastes packaged in a water-sol-uble plastic pouch and multi-action sheets, which release pre-measured detergent, whitener and fabric softener in

washing and drying cycles.
Textile Washing Preparations: The International Market. Euromonitor, 87-88 Turnmill Street, London BCIM 5QU.

Spanish venture GARDNER MERCHANT, the contract catering division of hotel group Trusthouse Forte, is expanding into Spain through a joint venture with the Paradis Group, a Barcelo-

Christmas transport NO LONDON buses or Unde Christmas Day. On Boxing Day there will be a special service

na-based catering company.



Power sail: the Sizewell B pressure vessel leaves the Framatome factory in France under either public or private ownership. The first uncer-tainty is the industry's ability

Ex-minister proposes state role for private schools

PRIVATE SCHOOLS should receive government money to join the state system and educate all pupils on the basis of ability, Mr George Walden, Conservative MP for Buckingham, says in a pamphlet published today.

Mr Walden, a former educa-

tion minister, argues that the proposal would be an important part of breaking the monopoly of state-funded com-prehensive schools. Other elements could be increasing numbers of schools opting out

Much the same as us no doubt.

Geoffrey Owen, already in reflective mood,

and with obvious affection, looked at the

demise of British Industry (despite 30 years of

creative crises and mould breakers). Ken Hom

enjoyed (!) a revival in mainland Chinese

get up to

this Weekend?

elephant's trunk and a 54 course goat dinner.

White liberal Patti Waldmeir spent 48 hours in

Soweto and found goodwill, warmth, steamed

sheep's intestines (a delicacy served in her

honour) and a glimmer of hope for a new

South Africa. Barbara Conway discovered

new P.C. add-ons that allow her to do more

things at the same time without losing her

colourful, pick up a copy of the Weekend FT

If your weekend was a little less

memory...and so it went on.

next Saturday and join us.

of local authority control and providing a greater spread of technology-based schools. As the Tory party seeks to regain the political initiative on education, Mr Walden sets out his case in The Blocked Society - a pamphlet covering a range of topics for the Tory Reform Group, a Tory party pressure group. Patrons include Mr Kenneth Clarke, the new education secretary.

Private schools that chose

their pupils through competi-

tive examination, instead of by

ability to pay fees, would per-form better than their counterparts retaining the old system. The move would also impel more monied parents into an active role in state schools. Mr Walden says education is the main "roadblock" in Britain It suffers from too much deference towards the status quo in "irrational institutions, obsolete political structures and absurdist conven-

> He argues that if the UK were reduced to the status of a

through a fallure to raise edu-cational standards.

Mr Walden sees the educa-tional industry as the main defenders of the existing posi-

province in Europe, it would be

tion and calls for an external inquiry into teacher training colleges as well as an extension of the licensed teacher scheme, through which some trainees go straight into the

He also seeks an independent and upgraded schools inspectorate, more nursery

Mr Walden's paper tackles

education and higher pay for

other issues, such as giving the Bank of England powers over the money supply: he com-ments on the Tories' "curious dichotomy . . . that governments are the worst people to run business and the best to manage our money." The Blocked Society. Tory

Reform Group, Sheraton House, Castle Park, Cambridge CB3 Top of the agenda, Page 20

teachers.

Caution on home improvement groups

By Sara Webb

CONSUMERS should beware of special offers on home improvements or household purchases in the next few weeks, as several home improvement companies are on the verge of bankruptcy, the Householders' Association

warned yesterday.

The association, a consumer protection group which moni-tors companies, said that cus-tomers should watch out for receivership." He urged con-

special Christmas and new year offers, for example on new kitchens or double glazing, especially if they were expecbefore receipt of goods. Mr Jeremy Taylor, a di

of the association, warned that in the present economic cli-mate, many home-improve-

sumers to check whether a company provides any form of protection before buying goods on special offer.

Companies which go into receivership are not obliged to or supply goods under the con-tract, the Association warns. The Householders' Association is running a consumer telephone helpline on 081 889-9833.

on the Underground and about a third of bus routes will oper-ate to special timetables.

EC to study impact of defence cuts cuisine - such delights as braised bear's paws, What did you

THE EUROPEAN Commission has ordered a study of the effect of defence industry closures in parts of Britain, Germany and the Netherlands as a

many and the Netherlands as a first step to setting up a fund to help economies that are expected to suffer as the Cold War ends.

The study will cover three regions where defence spending is central to the local economy. They are Lancashire, Bremen in north-west Germany and Zaanstad in the Netherlands.

Netherlands.
Lancashire's problems have already begun to emerge with already begun to emerge with the announcement last month of the impending closure of British Aerospace's Preston factory which makes Tornado fighter aircraft.

The EC study will be led by Lancashire Enterprises, the county's privatised economic development agency. Preliminary work shows how the defence market in the UK, Germany, Italy and the Nether-

many, italy and the Nether-lands will contract between 1990 and 1994, with cuts increasing from 1993 as armed forces are scaled down more

forces are scaled down more rapidly.

Leading Nato nations will bear the brunt: the UK defence market will contract by 9 per cent within four years; Germany's by 19 per cent, Italy's by 14 per cent; and the Netherlands market by 8 per cent.

The effect of cuts will not be distributed evenly throughout distributed evenly throughout

each country. The exact impact has still to be calculated, because past secrecy about defence contracts means that there is no detailed analysis of where work is done. Mr Jim Mason, chairman of Lancashire Enterprises, says a breakdown by type of spending and contracts to individual

the local hardship that clo-sures will bring. Areas that will be hit hardest can be forecast from recently published government data on defence equipment spending, showing average per

companies is needed to assess

ON EQUIPMENT 1988 25,000 N Ireland Yorks and 128 175,000

ment totalling £126 in 1988. Four economic regions were all above the average. In the south-west it was £242; in the north £211; in the south-east £178; and in the north-west £134. However, this does not mean that all will suffer equally.

For example, part of the north's contracts are for war-ship building Swan Hunter on ship building Swan Hunter on Tyneside. The group has a full order book in a sector where the rundown will be less than in other military equipment. By contrast, the VSEL submarine-building yard at Barrow-in-Furness, Cumbria, faces the loss of its main industry when the Trident programme ends.

gramme ends.
The south-east has the larg-The south-east has the largest individual regional slice of total spending, but it has a bigger and more diverse economy than anywhere else, accounting for 36 per cent of gross domestic product.

It will be much more difficult for redundant defence workers to find more in the

workers to find work in the north, south-west and north-west, where the eco-nomic base is narrower and where share of gdp is respec-tively 4.8 per cent, 7.6 per cent and 10.4 per cent.

Moreover, defence spending

is concentrated within regions, producing potential blackspots. In the north-west, for example, Lancashire has at least 80,000

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1990-	94, EC C	W NATO	COUNT	STE2 (2)	n)
	1990	1991	1982	1993	196
UK	37.2	35.8	35.2	35.0	34.
France	30.2	31.3	32.5	33.7	34.
Germany	32.1	32.1	30.0	28.0	26.
itely	18.8	17.6	16.8	16.0	16.
Spain	7.8	8.3	8.9	9.7	10.
Netherlands	7.5	6.9	6.9	6.9	6.
Norway :	. 3.2	3.3	3.3	3.4	3.
Belgium	28	2,9	. 29	· 29	2
Greece	2.7	29	3.2	3.6	3.
Turkey	2.3	2.7	2.9	3.2	3. 3.
Denmark	1.9	1.9	1.9	1.9	2.
Portugal	1,2	1.2	1.3	1.3	1.
Totals	147.A	146.6	145.8	145,5	145.

jobs directly or indirectly dependent on defence contracts.

Mr Michael Hynes, manag-ing director of Lancashire ing director of Lancasnire Enterprises, says: "The local economy is very unbalanced and over-dependent on govern-ment contracts. There are an awful lot of sub-contractors, including many companies we including many companies we have backed with our venture

have backed with our venture capital funds.

"We want an EC fund similar to those for the coal, steel, textile and fisheries closure areas. We are certainly going to need it to help fund things like husiness parks next door to defence contractors, investment schemes, counselling and similar initiatives."

The "buy local" campaigns

The "buy local" campaigns of the last 10 years — which encouraged hig companies to use nearby sub-contractors and suppliers to strengthen the local economic base – are likely to make things worse. Mr Mason says the injection

of BC funds into eastern Europe to promote market economies has been enough to prove a link between EC policy, the end of the Cold War and the knock-on effect upon defence industries.

Mr Hynes adds: "We also have to develop objective mea-sures, such as 'dependency ratios', to gauge the effect on the jobs market. The relative number of vacancies to unemployed is a better indicator than the number of vacancies on its own."

Disclosures by the government of the size and nature of individual defence contracts with particular companies will also be important to pinpoint which factories are most at

risk.

Preliminary work shows 11 leading British companies with a total of £8.5bn of defence sales in their latest annual accounts, led by BAe, GEC, Rolls-Royce, VSEL, Smiths Industries and Lucas.

In Germany, five companies — Daimler Benz, MBB, Rheinmetall, Siemens and the French-owned SEL — sold £4bn of defence equipment and

fish of defence equipment and services between them.

Italy's largest defence business was SNIA, the electronics and ordnance subsidiary of Flat-controlled interests, while in the Netherlands, Philips alone is believed to have fibri

of defence sales. Large companies which have benefited from defence con-tracts will also find themselves under pressure to help restruc-ture local economies. BAe is already talking to

local authorities about pro-grammes of assistance that will include counselling ser-vices, retraining and relocation together with subsidies for business start ups by the

Weekend FT

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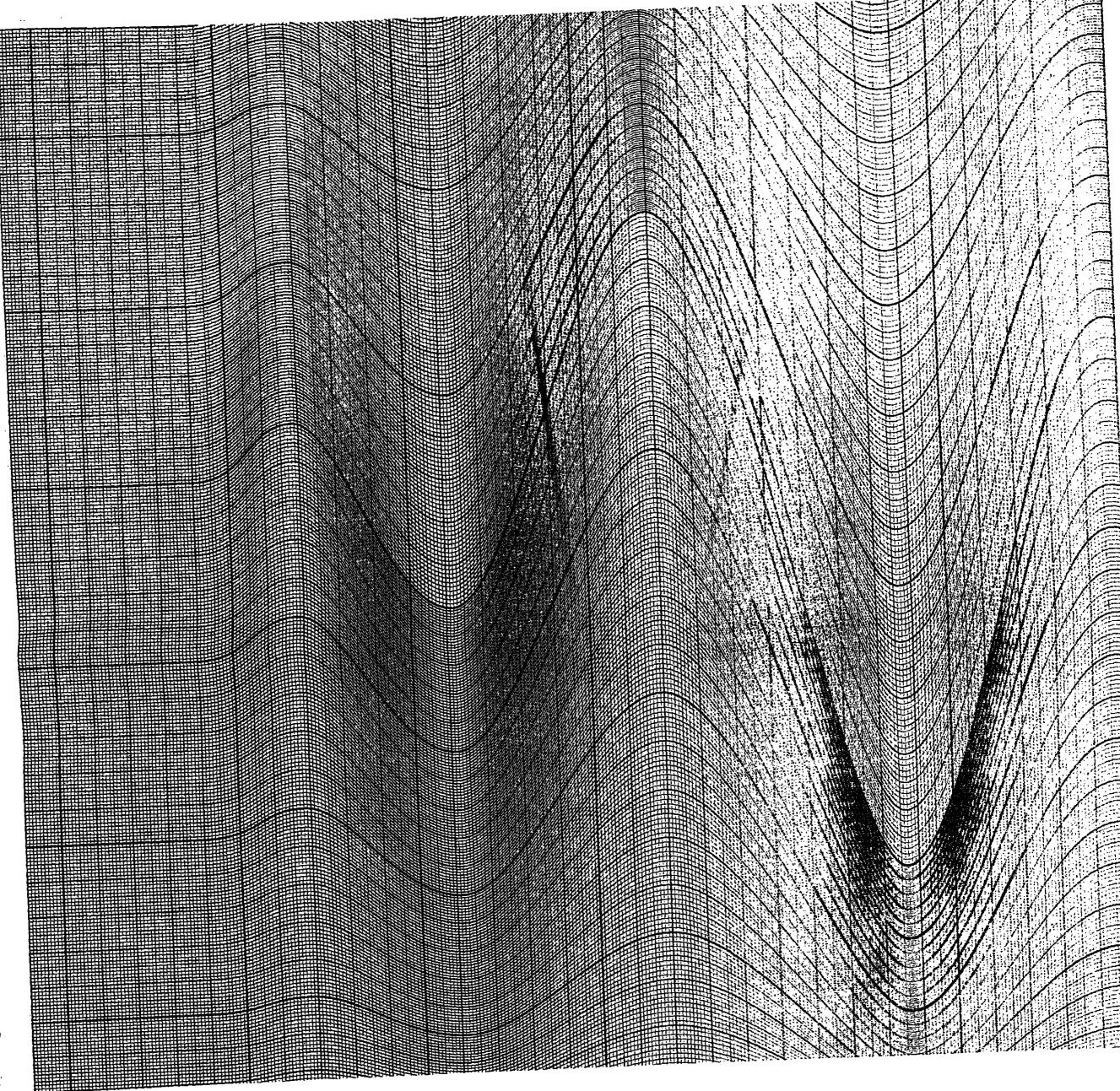
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UK NEWS

UK EMPLOYERS' ASSOCIATION REPORT

Outlook gloomy for manufacturing

By Peter Norman, Economics Correspondent

THE UK MANUFACTURING industry is gloomier about its production outlook than at any time in the past 10 years. The latest monthly indus-

trial trends inquiry from the Confederation of British Industry points to a sharp fall in manufacturing output in the new year.
It found that more companies expect output to fall in the next four months than in any survey since December 1980.

That was when the deep recession of the early 1980s was approaching its trough.

Mr David Wigglesworth, the chairman of the CBI's economic situation committee repeated the CBI's call for cuts in UK interest rates as soon as

possible to encourage manufac-

The survey also provides strong evidence that the present sharp slowdown in the British economy is squeezing industry's profits.

The number of companies expecting to raise prices in the months ahead was the lowest December figure since 1980. The CBI surveyed 1,361 companies, responsible for about half of UK manufacturing employment and exports, between November 23 and December 12.

It found that order books. although marginally higher in December than in November, were "significantly below nor-mal". Stocks of finished goods increased between November and December to their highest level since November 1982 and were more than adequate to meet expected demand.
Mr Wigglesworth said busi-

nesses are "facing up to a tough new year as they struggie to overcome the problems He said that the disciplines

imposed on industry by UK membership of the exchange rate mechanism of the Euro-pean Monetary System "are clearly beginning to bite." He warned of "significantly higher job losses" unless companies manage to keep increases in unit costs down to two or three

"All of us in British industry must follow the example of those companies which have succeeded in meeting this tough standard of international competitiveness." Mr Wiggles-worth said. "Otherwise investment will be cut back further, at just the wrong time ahead of 1992," the date for establishing the European single market.

The cost problems facing

British industry were high-lighted on Friday when the government reported that unit labour costs in manufacturing increased by 10 per cent in the three months ending October compared with the same period of 1989. The day before, department of employment figures had disclosed a 57,600 jump in

November's seasonally adjusted jobless total to 1.76m. Mr Wigglesworth said the intensity of competition was holding down price rises by industry. This is helping to combat inflation, but "the consequent squeeze on profits is becoming severe in many sec-

The CBI report shows that only 14 per cent of companies surveyed expected to increase output in the next four months against 44 per cent which expected output to fall.

The balance between the two numbers indicates the trend and the latest survey was the sixth in succession to report falling output expectations.
The 30 per cent balance of companies expecting output to fall compared with November's 23 per cent negative balance

Only 12 per cent of compa-nies reported that order books were "above normal" compared with 54 per cent that said they were "below normal".

The balance indicating below normal order books was little changed from the 44 per cent negative balances recorded in November and October, but marked a clear deterioration from the 11 per cent negative balance recorded in December

Bank of England dampens hope of early cut in interest rates

MR Robin Leigh-Pemberton, governor of the Bank of England, yesterday reinforced the government message that an early reduction in UK interest rates was unlikely.

In an interview on Channel 4 Mr Leigh-Pemberton said: "It is because our position in the (ERM) band is rather lower than I would like to see it that it is not possible immediately to respond, say, to better inflation figures ... by lowering interest rates."

The governor's comments backed up the warning deliv-ered last week by Mr Norman Lamont, chancellor of the exchequer, that despite signs of a deepening recession there could be no cut in base rates before the pound strengthened within the ERM.

Mr Leigh-Pemberton would

not be drawn on how much sterling would have to appreci-ate before interest rates could be cut but said "the exchange rate will have to be confident

and more healthy". He said that interest rates would not be reduced for rea-sons of political expediency. "This is what is important the market should see that the pol-icy makers in this country are not helping themselves to interest rate falls before they are as objectively merited as

they can possibly be."

He said he had disagreed with the government over the timing of the last cut in interest rates - the move from 15 per cent to 14 per cent on October 8 - which coincided with the full entry of sterling into the

"I have to say too that I felt



Robin Leigh-Pemberton that we were premature in allowing interest rates to go down on the day in question. I

dividend a little before it was earned. I would have liked us to have been patient by a day

or two. The governor said he had written "as forcefully as he could" to the government outlining his disagreements over the timing of the last base rate

But Mr Leigh-Pemberton was optimistic about the immediate

economic prospects. "We are somewhere near where the basic inflationary trend in the economy has been

corrected," he said.
"Provided we are not too greedy in snatching the advantages which flow from that, I think we might be able to say that we will have a shallow recession out of which we have a recovery which will be soundly based."

MPs to vote on death sentence for treason

By Alison Smith

OPPONENTS OF the death penalty for treason are confi-dent that they will succeed in replacing it with life imprisonment when MPs vote later on

the issue today.

Though capital punishment remains a question on which MPs have a free vote Mr Kenneth Baker, the home secretary, is likely to argue that the decision on the proper sen-tence for treason should not be taken without a review of the

offence itself.

In 1977 a report by a committee of lawyers advising the government said that the law on treason needed reform, but their recommendations have

not been acted upon. Though Mr Baker may now

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propose an urgent review of the law, Mr Peter Archer, the former Labour law officer who has led the attempt to abolish the death penalty completely, believes that there will still be enough MPs who are not swayed by that argument for his proposal to go through.

suggestion that it would some-how be "risky", even at the time of the Guif crisis, to replace a punishment which

has not been used for more than 40 years.

All the proposals to restore capital punishment which will be taken today seam certain to be decisively defeated as they were in the previous two debates, in 1988 and in 1983.

Latest UK opinion polls hit early election hopes

Expectations of an early prime minister and Labour had general election in February or March have been dampened by a series of opinion polls show-ing that the Conservatives' lead over Labour has fallen sharply within the past month. The latest Harris poll, published in the Observer newspa-per at the weekend, gave the Conservatives 44 per cent, lead-

ing Labour by four percentage points, while the Liberal Demo-crats trailed on 10 per cent. The reduced scale of the lead is in line with the findings of two polls published earlier last week.

Though these leads repre-sent a transformation in the parties' ratings compared with polls carried out while Mrs Margaret Thatcher was still

a consistent double-figure lead. they show a steep drop from the 11 points the Tories were ahead immediately after Mr John Major became prime min-

There is clearly encouraging news for the Tories, however, in the high ratings Mr Major scores for qualities as varied as being tough, caring and good

on Europe. Nonetheless, the electoral volatility shown by the polls has added to the belief of some Tory MPs that the most likely timing of a general election is after the local elections in May, when party strategists will be able to plan on the basis of having seen how people actu-

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FINANCIAL TIMES MONDAY DECEMBER 17 1990

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COULD HE BE OUR EMPLOYEE?

Though his tribal name is Kanga Duta, he's better known as Red Crow. He travels the globe like a latter day troubadour. Telling of his ancestors' values and fighting for his people's rights.

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Origin. The human resource for software projects.

Youte and some of his colleagues

had at one time worked at Salomon Brothers, arguably the toughest and

most successful bond-trading house, but they had a mixed reputation. Trading floor cultures are delicate

traing noor cultures are delicate
and Hennessy's move set First Boston's seething with animosities.
Last month, however, Youte and
his two top lieutenants suddenly
parted company with First Boston.
Says one insider: "There was simply
too big a clash of cultures."
The departures — an anyment

The departures – an apparent rebuff to Hennessy's personnel policy – followed Cox's sudden and surprising elevation in September to be chief executive of the US unit. He had only joined First Boston last

May, as an advisor on international

strategy, after spending 10 years as head of Morgan Stanley's London operations and then retiring from banking in 1988.

Some Wall Street analysts have suggested that Cox's rise stemmed from concern at Crédit Suisse over

the group's recent performance. But Rainer Gut, chairman of CS bold-

ings, is on record as denying this. Whatever the truth,

Cox is left with an extremely tough

On the costs side of the equation, it has been slashing away at staff and overheads; the latest round of

job losses will mean it has cut the number of employees by between some 600 and 700 in 1990, to less

than 3,500. But on the revenue side, in its

traditional areas of greatest

strength – underwriting and take-over work – the house has slipped a few notches down the investment banking league tables this year. Furthermore, critics argue that the bank has not been as nimble as

some of its rivals in entering poten-tially important profit areas for the 1990s, such as fund management.

foreign exchange dealings and some derivative products.

grizzled pianist with a tired and doleful face is playing tunes of seasonal jollity in the marbled lobby of Park Avenue Plaza, a glassy green giant of an office block in mid-town Manhattan. Strains of "Rudolph the red-nosed reindeer" tinkle across the foyer and mingle with the soothing splash of an indoor waterfall.

But take a lift a few floors upwards and you will find Christ-mas cheer in distinctly short sup-ply. For this is the home of CS First Boston, one of the premier invest-ment banks in the US, where a dreadful 1990 is drawing to a wretched close.

Its severe financial problems – the result of loans which went sour – meant that last month the bank suffered the humiliation of a financial bail-out by its largest share-holder, CS Holdings, parent of Credit Suisse, the big Swiss com-mercial bank.

An equity injection saw CS Hold-ings boost its stake in the business ings boost its stake in the business from 44.5 per cent to around 60 per cent, making CS First Boston the first large US investment bank to be majority-owned either by a foreign company or indeed by a commercial bank. The Swiss took board control and made clear that from now on they would be calling the shots.

Meanwhile, in the run up to

Christmas, fresh job cuts are taking christmas, itesh job cuts are taking place at the bank's US operating subsidiary, First Boston Corporation, which is the cause of most of the group's problems. It is reducing staff by up to 200 out of a total of around 3,700 by the end of the year. And for those left, Christmas will be distinctly leaner this time. Many employees are nursing huge losses from loans taken out to buy com pany stock. Year-end bonuses, comprising both cash and stock, have been cut sharply and many of them have unusual "handcuffs" attached; if your leave the company within two years you must hand back up

to 40 per cent of the cash. The year has also seen an unusually high turnover in First Boston Corporation's senior staff, particularly in the past few weeks. Many have been pushed towards the exit doors, but some have quit volun-tarily. A significant number com-plain about heavy-handed manage-ment and an erosion of trust.

And from all sides comes a similar refrain; morale at the firm has taken a severe knock. "There has been an absolute meltdown," says

one recent defector.

The question now is whether a combination of fresh Swiss capital and fresh management, in the form of Archie Cox, the recently-ap-pointed head of the US unit, can restore both self-confidence and profits - against a background of the most difficult market for investment banking in at least a decade. Cox, who is aged 50, 6 feet 7 inches tall and a cycling enthusiast,

CS First Boston

Now the Swiss call the shots

Martin Dickson assesses the financial problems confronting one of the premier US investment banks and analyses whether an injection of new management and fresh, foreign capital will be enough to restore self-confidence and profits them with an entire team of outsiders from the bond boutique of Voute, Coats Stuart & O'Grady, headed by the eponymous William

presents a sharp contrast to the management style of his predeces-sor, the suave, good-looking Jack Hennessy, whose tough-talking approach stirred up strong feelings inside First Boston Corporation. Hennessy has stepped back from the day-to-day running of the American operations to concentrate on co-ordinating CS First Boston's global operations. Cox, the son of the special prosecutor in the Watergate affair, is almost universally described as a "very nice man", a diplomat and team-builder, though some doubt his ability to inspire.

Outlinists argue that an end to

Optimists argue that an end to political in-fighting, coupled with First Boston's extremely strong international name, excellent client list, and the financial clout of Crédit Suisse, will eventually restore it to health. But some analysts fear that the management, hemmed in by conservatism at CS Holdings, may not display the flair needed to

The securities house is hardly alone in going through hard times. All of Wall Street is suffering from the end of the 1980s securities industry boom and firms are all lay-ing off staff in a painful unwinding of the financial excesses of the past

But what makes First Boston's problems particularly arresting is the firm's lofty status, for it has long been one of the three top US bal firms in investment banking

and underwriting.

The central lesson of the current rmoil is that, unlike some rivals, its group culture and management systems have just not been sufficiently robust to contain the stresses of the 1980s takeover boom and its messy aftermath.

An even more damning verdict comes from Hans-Joerg Rudloff, the aggressive German head of Crédit Suisse First Boston (CSFB) ,the bank's London subsidiary, who is a long-time critic of the American operations. He recently described the management record in New York as one of "incompetance matched only by their arrogance." For years a dull but very large

underwriting house, First Boston emerged suddenly in the 1980s as one of America's investment banking powerhouses. It was helped par-ticularly by two factors: the formation of CSFB, originally a London-based joint venture with Credit Suisse, which became for a time the dominant firm in the



John Hennessy (left) and Archie Cox: a sharp contrast in management styles

booming Eurocapital market; and the team of Joe Perella and Bruce Wasserstein who turned the bank's tiny mergers and acquisitions department into one of the most successful takeover advisory teams of the decade.

Yet for all its success, First Boston was constantly wracked by internal dissention over its future direction. In particular, there were increasing turf conflicts (which have echoes even now) between CSFB in London and the US operations, and there were tensions in New York between the tradi-tional trading side of the business and Wasserstein and Perella's

investment bankers. Both issues reached a climax in 1988. First, Wasserstein and Perella quit to form their own investment banking business, taking with them some of the bank's top deal-makers and corporate clients. Then, in an attempt to solve the bickering with CSFB, and create a more coherently structured global husiness, a deal

was struck with Credit Suisse. This created a new New Yorkbased holding company, CS First Boston, which was 44.5 per cent owned by the Swiss (the rest owned by company insiders and institutional investors) and had three geo-graphic legs: First Boston Corporation in the US, CSFB in Europe, and CS First Boston Pacific in Asia. Having put the new structure in

place, Peter Buchanan, the chief executive, retired in the autumn of last year, handing over the job to John Hennessy, 54, who had spent most of the 1980s in London as chief executive of CSFB - though many credited its success to the hands-on

Imost immediately, Hennessy found himself grappling with a horrific financial problem, in the form of "bridge loans" – a type of financing control of the state o cocted in the mid-1980s by investment banks hungry for takeover fees; the banks themselves advanced loans to corporate clients to provide quick bid financing, recouping the money later through an issue of junk bonds.

When the bottom fell out of the

junk bond market in the autumn of 1989, First Boston found itself sitting on \$1.2bn of potentially prob-lematic bridge loans and facing a Wall Street crisis of confidence in the strength of its finances. CS Holdings finally came to the rescue last month, injecting some \$300m of new equity into the firm and shunting most of the bridging loans into a limited partnership.

This removal of financial uncerjob. CS First Boston made only \$11m in 1989 – mainly because of the US problems – and this year its loan loss provisions will plunge it heavily into the red.

tainty will go some way to help morale, but the firm's self-confi-dence has also suffered from considerable upheavals in its top manage ment over the past year, and these wounds may take longer to heal. Hennessy, after taking over in the autumn of 1989, emerged quickly as a ruthless and controversial manager. First, he removed the head of First Boston Corporation, the US business, to run the show himself, and then he began to axe jobs. Two months ago he told the FT: "If peo-

pie are not professional you should be ruthless. Too many compromises were made in the past and there were too many surprises. There was not enough accountability."
Few could quarrel with his analysis of past mistakes, but critics claim that his abrasive style compounded the morale problem.

And they question his judgment and sense of strategy, pointing, for example, to his sweeping changes in the bond-trading department at the start of this year. There, he axed the top tier of staff and replaced

formance depends crucially on three intertwining factors - the quality of a bank's staff, the strength of its capital resources and the length of its client list. And at First Boston there are question marks over all three.

Despite all the recent turmoil, Cox insists that the firm's clients have been "very loyal", although rival houses claim to be picking up bits of its business.

Wall Street also questions whether the bank's capital resources — which will have shrunk from some \$340m at the end of last year to less than \$600m, are sufficient to support a large, integrated house. Cox believes that it is ar the present time, but critics say that sooner or later CS may have to choose between pump-

ing in even more capital or retreating from capital intensive securities businesses to more profitable As for staff, Cox insists that get-

ting good new employees has "not been a problem so far. We are attracting the talent we want." But others on Wall Street question whether First Boston will be able to retain some of its best performers.

ox denies suggestions that the CS takeover means pay levels will drop to those more common in commercial banks, although he adds that compensation now "will relate more directly to profitability." That means a lot lower than in the past. True, the rest of Wall Street is also trimming bonuses, but can First Boston's pay

structure remain competitive?
Wall Street analysts also question whether the CS takeover will be entirely beneficial to the bank stra-tegically, for to get Federal Reserve tegically, for to get Federal Reserve approval for the deal, First Boston has had to give up a number of business practices, such as bridging loans and taking equity stakes of over 25 per cent in other companies.

These were all important tactics in the 1980s takeover boom, but First Boston executives insist that the ban is of little importance in the much more conservative climate of

much more conservative climate of the 1990s. It certainly does not want to make more bridge loans. Some rivals disagree: "Investment

banking is living at the margin," says one. "It means risk and innovation. Now they're just a subsidiary of a commercial bank. That's the strategic line they've crossed."

Certainly, no major commercial bank takeovers of investment banks around the world have yet been an unqualified success, and the fact that this one was precipitated by financial crisis hardly augurs well. Still, First Boston and Crédit Suisse do have the advantage of a relationship stretching back many years and First Boston's powerful international presence.

Cox acknowledges there has been some league slippage, but he does not believe the loss of market share The nice Mr Cox might yet prove the sceptics wrong, but he has an immense job on his hands. is significant in any area. Certainly, league positions can change very rapidly, yet consistently good per-



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Big New York firms launch drive into eastern Europe

LEGAL COLUMN

By Robert Rice, Legal Correspondent

THE EXPANSION of US law firms into Europe peaked early this year. Now it is entering a new, slower phase and, broadly speaking, those that intend to come have already arrived.

The heavy influx of US lawvers into London, Paris and particularly Brussels over the past two years was prompted very much by the approaching single European market.

A 1992 publicity bandwagon began to roll across the US in 1988. Chief executive officers of US corporations began a non-stop round of conferences and seminars on the single market. Then they began to ask their in-house lawyers what their companies were doing about it. The law firms became interested in the single European market once it became impor-tant to the chief executive offi-

The picture has changed markedly, however, since many of them initially thought of opening offices in Europe. The unification of Germany and the opportunities now available to western investors in the emerging economies of central and eastern Europe have led to a re-ordering of pri-orities for all concerned.

The strategies of US law firms towards Europe have become both more sophisti-cated and more diverse. The lemming-like response which the single market engendered has largely disappeared, and, perhaps inevitably, it is the firms which have been long established in London and Paris which head the drive eastwards.
Take three New York firms:

Shearman & Sterling, Simpson Thacher & Bartlett and Debevoise & Plimpton. They differ in size and odd details of emphasis but the spread of their practices is remarkably similar (Shearman & Sterling has 136 partners and 624 lawyers, Simpson Thacher 97 partners and 442 lawyers and Debevoise 86 partners and 349 lawyers).

Simpson Thacher, for example, benefits from recognised expertise in the merchant banking field which has grown out of the firm's broader experience in mergers and acquisitions, commercial and invest-ment banking, corporate finance, restructurings, project finance, bankruptcy and general corporate work The firm is one of the leading legal advisers in leveraged buy-outs. Through its representation of Kohlberg Kravis Roberts (KKR) and other specialist LBO, Simpson Thacher has engineered many of the largest leveraged acquisitions, such as that of RJR Nabisco. Its links with Manufacturers

Hanover Trust and similar banks have meant that Simpson Thacher has regularly

son macher has regularly served as leading legal adviser to banks on large syndicated acquisition financings.

Debevoise specialises in mergers and acquisitions.

LBOs, cross-border acquisitions and related financings, securities and banking regulation, anti-trust, restructurings and general corporate work.

Entrants are pursuing markedly different strategies

Among Debevoise's clients are a number of investment banks: Citibank, Commerz-bank, Morgan Guaranty and Westpac Banking, it also repre-sents three specialist LBO firms: Clayton & Dubilier, Kelso & Co and Kohlberg & Co. Shearman & Sterling, the biggest of the three firms, also has a similar profile - mergers and acquisitions, banking, cor-porate finance, bankruptcy and workouts, and general corpo-rate work. The firm prides itself on its reputation in cross-boder transactions border transactions.

In American Lawyer magazine's corporate scorecard for the biggest deal makers of 1989, Simpson Thacher came fourth in the league table for mergers and acquisitions and Shearman & Sterling fifth.

Those two firms also share clients in the banking field, and both act for The First Boston Corporation and Wasser-stein Perella. Among Shearman's other banking clients are Citibank (in common with Debevoise), Merrill Lynch Cap-ital Markets, Morgan Grenfell and Morgan Stanley. But in spite of the many sim-

ilarities, each firm is pursuing markedly different strategies Shearman & Sterling, following in the footsteps of the UK firms Clifford Chance and Freshfields, is to open offices in Frankfurt and Dusseldorf in the new year. The German operation will be headed by Mr Georg Thoma, a former associate lawyer with Shearman who has built up an international corporate practice in Dussel-dorf as a partner in Galler

Meyer-Landrut Miller. According to Mr David McCabe, a senior international partner in Shearman's mergers and acquisitions division, the move is part of the firm's strategy of being truly international rather than a US firm with

overseas offices. Shearman & Sterling does not, however, subscribe to the theory that by the turn of the century legal services around the globe will be dominated by eight or 10 very big law firms. Berlin may be the next obvious move, but the German offices do not represent part of a strat-egy to open branch offices all over Europe.

The move into Germany is driven by the increase in cross-

border transactions that form an essential part of Shearman's practice throughout Europe. The firm is committed to developing domestic law capability in several countries, Mr McCabe says.

Germany was an obvious choice for Shearman because of close ties since the end of the second world war. In the US the firm acts for numerous German financial and industrial companies. It is, for example, advising Continental AG, the German tyre manufacturer, about the Pirelli bid for Conti-nental.

Mr McCabe also sees the German offices as launch pads for its east European practice. The Frankfurt and Dusseldorf offices are expected to have up to 15 lawyers by the end of

Debevoise & Plimpton, by contrast, has decided to leap-frog Germany and set up an eastern Europe office in Budapest. After Baker & McKenzie, which has been in Hungary for more than two years. more than two years. Debevoise is only the second important western firm to open an office there.

The Budapest office will be staffed by three Dehevoise law-yers. Mr Andrew Sommer is a mergers and acquisitions lawyer from the London office, Ms Katherine Ashton is from New

York and Ms Eva Guylas is a Hungarian lawyer. The firm has also established an association or "correspondent" rela-tionship with the International Business Law Office in Budapest. The office has eight lawyers concentrating on commercial and company law.

An associate relationship has been established with Dr Bohuslav Klein in Prague, who entered a similar association with the UK firm S.J. Berwin two weeks ago. Debevoise is looking for similar relationships with lawyers in Poland and the Soviet Union.

Mr Edward Perell, head of Debevoise's London office, says

the Hungarian office is a "natural outgrowth of the firm's practice," particularly in the area of complex cross-border He says that Hungary is ahead of the field in the race to establish the right legal and financial framework for

encouraging foreign investment. He expects the Budanest operation to support itself within a couple of years, "We feel we have to be there," he says. "It is not enough simply to be in London and Paris. It is the logical win-dow into central and Eastern

Simpson Thacher's strategy is different again. The firm has had an office in London for 12 years, and recently decided to increase the number of lawyers there from three to seven with

capacity to increase to 15.

The firm is keen to provide more services to clients in Europe, but believes that the best way to achieve this is through London.

Frankfurt might have seemed a more obvious choice than London for a firm with such a strong banking practice. But Mr Richard Beattle, who is widely thread the strong banking practice. widely tipped to become Simp-son Thacher's chairman in the new year, says there were sev-eral reasons for choosing London. They are that the firm had an office in London any way, it believed that London would be the financial centre of Europe and most of its cli-ents with European operations

were based in London. Simpson Thacher is also against competing with local lawyers on their home territory. It believes that the best way to provide a good service is to assemble a team for a job by using the best local firms.



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THE WEEK AHEAD

ECONOMICS

Latest data unlikely to dispel gloom

By Peter Norman, Economics Correspondent

A HEAVY WEEK for statistics on both sides of the Atlantic is unlikely to lift the gloom prompted by the increasingly strong evidence that the UK is in a serious recession and that the US economy is slowing

In Britain, the government survey of investment intenclosely watched indicator. Thursday's money supply figures for November are expec-ted to confirm the rapid deceleration in the annual growth of Mo, the narrow measure of money supply, that has become apparent from the Bank of England's recent weekly

Another talking point will be the level of bank and building society lending. The consensus of analysts'

forecasts compiled by MMS international, the financial research company, suggests a £4.2bn increase in November after £4.6bn in October. How-

]€bn UK Bank and Bulletine UK Bank and Building 🕻 🧴 Societies lending (Sbn)

cover a fairly wide range from Other events and statistics this week - with median market forecasts from MMS International in brackets - include: Today: EC economics and finance ministers meet in Brus-Tomorrow: US, Federal Open

index (up 0.3 per cent). November real earnings. October merchandise trade balance (minus \$9.6bn), exports (\$32.5bn), imports (\$42.3bn). Canada. October trade balance (C\$1.1bn). Japan, November money supply (up annual 11.2 per cent), October personal income and consumption expenditure. UK, November PSBR (2500m). France, October industrial production (down 0.3 per cent on month).

November consumer price

wednesday: US, third quarter final GNP (up 1.7 per cent), GNP deflator (4 per cent), after tax corporate profits (up 6.7 per cent), November housing starts (1m) and building permits. UK, third quarter provisional GNP third quarter provisional GDP (down 1 per cent), government autumn survey of investment intentions. Canada, October unfilled orders (down 1 per cent).

Thursday: US, November personal income (up 0.2 per cent), personal consumption expendi-ture (up 0.1 per cent), money

UK COMPANIES

ONLY a handful of companies are reporting this week as the City winds down for Christ-

The results season for the 10 water companies will draw to a close after Southern and Wes-sex have announced results for the six months to end-September today and tomorrow respectively.

The range of analysts' expectations for Southern Water's pre-tax profits is £45-50m.

Eaux Dumez, the French company, has sold its 6 per cent It is expected to announce £30-35m pre-tax profits.

Wessex Water is likely to

attract more attention at the moment, following the news

last week that Lyonnaise des

Dividend increases for both companies should be around 15 per cent, about the average for the 10.

Yorkshire Television reports

tomorrow its last full results before bidding for its new franhow the company is progress. chise in April.

The company turned in bet-ter than expected pre-tax prof-its of just over £11m in the six months to March. Analysts are looking for £18m-£20m for the full year. Gestetner, the office

ment and photocopier distribu-

tor, is expected to report pre-tax profits of just over £50m

today, for the year to October

E.C., 12.00

Heritage, Waterden Road,

Stratford, 9.00 Manganese Bronze Hidgs., 1 Love Lane, E.C., 12.00

Oceonics, Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.30 Savage, Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.05 Scottish Cities Inv. Tst., E.C., 10.00

Sheafbank Property Tst., Holiday inn Crowne Plaza., Manchester, 11.00 BOARD MEETINGS

Finals; Abbey Panels inv.

Interime: TGI

Oceanics, Chartered

ing with its integration of the non-US operations of Nashua Office systems, for which it paid £90.6m in April. Other companies reporting include Triplex Lloyd, the foundries and engineering group, NFC, the freight and gistics specialists, and United

Most interest will centre on

Scientific, the maker of armoured vehicles.

DECEMBER 21
COMPANY MEETINGS
Bailey (C. H.), Bute Dry
Dock, Cardill, 1.30
Lowland Inv., 3 Firsbury
Avenue, E.C., 2.30
Resetaugh The Drawing

Avenue, E.C., 230 Rosehaugh, The Drawing Room, Claridges, Brook Street, W., 9.15 Strong & Fisher, 41 Tower Hill, E.C., 10.00 BOARD MEETINGS

Abtrust Scotland Inv.

Citicorp Fing Rate Nts. 19/9/

Drayton Cons. Tst. 12.75p FR 4.2% 2nd Prl. 2.1p

Great Western Resources 3p Greatham House 3p Greytrians Inv. 4p Hercules 56cts.

Midland Bank Und, Fitg. Rate

Overseas (nv. Tst. 1.65p Portsmouth & Sunderland

M SATURDAY DECEMBER 22 LASMO 10½ % Deb. 2009 6.1875pc.

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FRIDAY

UK COMPANIES

ETODAY COMPANY MEETINGS: Amber Day, Howard Hotel, Temple Place, W.C., 11.00 Drayton Cons. Tst., 11 Devonshire Square, 10.00 Govett Strategic Inv. Tst., Shackleton House, 4 Battle Bridge Lane, S.E., 12.00 BOARD MEETINGS Electronic Data Processing

Southern Wate Worthington (A.J.) COMPANY MEETINGS: Barrett (Henry), The Victoria Hotel, Bradford, Westpool Inv. Tst. F & C Eurotrust, Exchange COMPANY MEETINGS House, Primrose Street, E.C., 12.15 BOARD MEETINGS Clydesdale Inv. Tat., 30 Finsbury Circus, E., 12.00 BOARD MEETINGS Finals; City Site Estates Triplex Lloyd Midlands Radio

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Finals; United Scientific Interims; British Building & Eng. Appliances Flextech Yorkshire Television West Tal DECEMBER 26

COMPANY MEETINGS British Assles Tat., 1 Charlotte Square, Edinburgh, 12.30

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programme in the field of human capital and mobility. Opposed private husiness from 7 pm. Lords: Gaming (Amendment) Bill, third reading. Natural Heritage (Scotland) Bill, report stace. Question to covernment Commons:
Committee stage of the
Criminal Justice Bill: New
clauses on capital punishme
Lords:
Debate on developments in
the Guil.

stage. Question to govern on EC Commission propo Select committee: Public accounts - Subject, for a directive on voting rights for Community nationals in local elections in their state

Senect commitmes: Trade and Industry — subject, sale of Rover group to British Aerospace. Witness: Sir Peter Greyson, DTI. (Room 15, 10.30 am)

Witness: Roger Freeman, MP, Public Transport Minister (Room 17, 4,15 pm).

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0.9p East Surrey Water 3p Enron Corp. 62cts.

Motion for Christmas

Debate on aftuation in Latin

southern Africa. Witness; Rt Hon Douglas Hurd, MP. Foreign Secretary (Room 6, 10,30 am). Trade and industry — subject. Securities and Investments Board. Witness: David Walker, chairman, SIB (Room 15, 10.45

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Parliamentary Commissioner for Administration — subject, annual report of the health service commissioner for 1989. Witness: Mr W. Reid, Health Service Commissioner (Room Service Commissione 19, 11 am). Public Accounts — su new British Library. V Mr A. Brown, Propert

Cooper, British Library; and Mr C. Henderson, Office of Arts and Libraries (Room 8, 4.15 pm).

THURSDAY Debates on the motion for the

Lords: Namibia Bill, third reading. Judgments Bill, second reading. Judgments Bill, second reading. Caravans (Standart Community Charge and Rating) Bill, second reading. British Railways (No 3) Bill, third reading. Question to government on the

APPOINTMENTS

Executive directors of Vickers



■ VICKERS has appointed Mr Gerald Boxall (left) and Mr Peter Ward (right) as executive directors from January 1. Mr Boxall is chairman and chief executive of Vickers Defence Systems, and Mr Ward is chief executive and managing director of Rolls-Royce Motor Cars, posts they will retain.

■ Mr Peter Moxon has been appointed director, human resources for MOUNTLEIGH GROUP from February 1. He from his own

JANUARY 10

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Britale's Economy in Europe.

JANUARY 15

consultancy, and was, until 1986, international human resources director at General Electric Company (USA).

■ Sir Bob Reid, chairman of British Rail, is to become chairman of the council of the LONDON ENTERPRISE AGENCY in succession to Sir

■ Mr Hugh Prior, chief executive and deputy chairman of Winchester Bowring, has been appointed a director of Guy Carpenter & Company, Inc. New York. Both are MARSH & McLENNAN

THE ASSOCIATION OF BRITISH INDEPENDENT OIL EXPLORATION COMPANIES (BRINDEX) has appointed as chairman Mr Roland C. Shaw of Premier Consolidated

■ BURNFIELD has appointed Mr Glynne Clay as a

non-executive director. He is

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■ CLAY & PARTNERS. consulting actuaries, has appointed Mr David Nutting as a partner



REDLAND ROOF TILES has appointed Mr Kevin Connolly ictured) as financial directo (pictured) as financial director. He was financial director of managing director of N.M. Rothschild & Sons (Wales), and

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MARCH 4

■ Mr Nigel Orr has been appointed managing director of SR Computer Services, a subsidiary of SYSTEMS RELIABILITY HOLDINGS. He was director of international support and general manager in France with Granada Computer

supply for week ended Dec 10

UK. November M0 (down 0.2

per cent on month, up 3.1 per

cent on year). M4 (up 0.7 per

cent on month, 13.7 per cent on year), bank and building soci-ety lending (£4.2bn). France,

Bank of France announces 1991

monetary targets, Paris-based Organisation for Economic

Co-operation and Development

publishes twice yearly Economic Outlook. Australia,

October housing finance (up

Friday: UK, November trade balance (minus £900m), current

account (minus £800m), November building society

commitments (£3.2bn), cyclical

indicators, France, November

US, FOMC releases minutes of Nov 13 meeting, November

Treasury budget (£42bn). Can-ada, October retail sales (down

0.6 per cent), wholesale trade, average weekly earnings,

alance (minus FF6.5bn).

Peter Norman

L.75 per cent).

■ The 1991 president of the HOUSE BUILDERS FEDERATION is Mr Terry Europe and Overseas, and a

■ Mr Robert Jenkins has been appointed executive director, European development, at MIDLAND MONTAGU VENTURES. He joins from Charterhouse Development

Mr Harry Brown has been appointed general manager AND GUARANTEE INSURANCE COMPANY. Mr Victor Fowler, managing director and underwriter, is

COMPANY NOTICE

TOMORROW



Pollowing the DIVIDEND DECLARATION by Ford Motor Company (U.S.) on 11 October 1990 NOTICE is now given that the following DISTRIBUTION will become payable on or after 17 December 1990.

Gross Distribution per unit

Less 15% USA Withholding Tax

0.5625 cents 3.1875 cents

3.7500 cents

Converted at \$1,9350

Claims should be lodged with the DEPOSITARY: National Westin Bank PLC, Stock Office Services, Third Ploor, 20 Old Broad Street, London BC2, on special forms obtainable from that Office.

United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the reverse of the

All other claimants must complete the special form and present this at the above address together with the certificate(s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

DATE: 17 Demember 1990

THE "SHELL" TRANSPORT AND TRADING COMPANY, p.l.c.

Notice is hereby given that a balance of the Register will be struck on Friday, 4th January, 1991 for the preparation of the half-yearly dividend payable on the SECOND PREPERENCE the SECOND PREFERENCE
SHARES for the six months
ending 31st January, 1991. The
dividend will be paid on 1st
February, 1991. For Transferees
to receive this dividend, their
transfers must be lodged with the Company's Registrar, Lloyds Bank Pic, Registrar's Department, Goring-by-Sea, Worthing, West Sussex, BN12 6DA, not later than 3.00 p.m. on Friday, 4th January, 1991.

By Order of the Board J.A. CUNLIFFE COMPANY SECRETARY Shell Centre London, SEI 7NA 17th December 1990

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071 873 3199 FINANCIAL TIMES

CONSTRUCTION CONTRACTS

£70m Sheffield project

NORWEST HOLST DEVELOP-MENTS has been selected by Sheffield Development Corporation, Sheffield City Council and British Waterways as the preferred developer for the £70m Sheffield Canal Basin

redevelopment scheme.
Located just off the A57 near Park Square, the development will offer a mixture of commercial and residential accommo-

dation as well as leisure facili-

Norwest Holst's scheme, which will create 2,500 jobs, includes a large range of residential units with one, two and three bedroom apartments and some traditional starter homes. available at affordable market rents via housing associations

or through a Business Expan-sion Scheme. With the remain-der for sale, a mix of "owner occupier" and rented accom-

erating a small local commu-nity with a sense of identity. The commercial element of the scheme has been designed to provide a group of buildings built to the highest standards of specification.

The regeneration of the Canal Basin will include a Copthorne hotel, a pub, petrol sta-tion, motel and family restau-rant. The project's architect is Seifert Carey Jones.

Headquarters for Grand Metropolitan

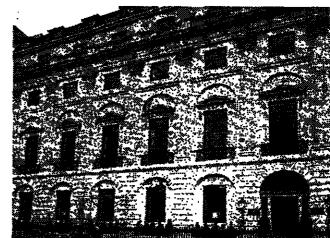
TRY GROUP's order book has been boosted by orders total-ling £19m. The Try Build sub-sidiary contributes £12.7m with a range of contracts in London and the South.

At the head of the list is a fitting out contract at 20 St. James's Square. The building is to be the headquarters for Grand Metropolitan and will be ready for occupation in just 12

In addition to lift works being carried out for Pearl Assurance at Commonwealth has been awarded a £2.1m contract to clean and redecorate the facades of the building together with the refurbish-

ent of five floors. At Marlow, in Buckingham-shire, the company has started work on the 18 bedroom exten-sion to the Compleat Angler Hotel at £1.19m for Trusthouse Further three-year mainte-

nance term contracts have been awarded by the Depart-ment of the Environment, Property Services Agency for



The new London headquarters of Grand Metropolitan

the Larkhill area (£1.95m), Winchester and Worthydown (£588,000) and Camber-ley/Blackdown area (£900,000). Two term contracts have also been gained from the Metropolitan Police worth £1.2m. Try Construction has won

Work comprises a £3.77m head-quarters for the Guide Dogs for the Blind Association in Reading, offices in Slough for Windand refurbishment work at the

Cheque clearing centre in Southwark

TEAM has been appointed as management contractor for the film refurbishment and conversion of a 100,000 sq ft printing for the contract includes the installation, on ing works in Southwark, London SE, into a high-technology,

four of the building's five

Bristol business park

The latest in a series of contracts awarded to SIR ROB-ERT MCALPINE AND SONS by Arlington Securities are for the construction of two buildings on its Aztec West Business Park near Bristol.

The largest, a £2.37m design and build contract, is for a twostorey, centrally-heated, hightechnology building with a total floor area of 3000 sq

Work includes the provision of car parking for 150 vehicles and landscaping.
The other building is an

office/warehouse building pro-viding a total floor area of 1500 sq metres. This will be of steel frame construction on concrete slab foundations. Both projects are due for completion in September 1991.

YEARS OF COSTAIN 1865 TO 1990

Fra.

conditioning, data cabling, raised floors, suspended cell-ings and restaurant facilities. Externally there is to be extensive curtain walling and

The Country

Perhaps as the title implies, The Country Wife takes a while to warm up - a good half an hour – but develops into a splendid romp and you still see why for generations it was regarded as one of the best of the restoration comedies, but ilso a problem play.

Wycherley's work is not quite as nasty as it seems at first sight - all sex and no style. It also has a streak of romanticism. The trouble is that it is really two plays rolled

It starts with a man called Horner who has it put about that, as a result of some Anglo-French disaster, he has become sexually impo-

This is in order to gain easier access to women. However. Horner's trick adds relatively little to the main theme: there was an 18th century ver-sion of the play which omitted him altogether and was therefore decently shorter.

The fact is that Wycherley's women would probably have succumbed to Horner even without his elaborate decepthemselves to almost anyone in trousers provided he is not their husband. However, and on this rests Wycherley's reputation as a moralist, there is true love. A character called Harcourt falls at first glance for the sophisticated and liberally educated Alithea, and although she initially prefers a society fop, Harcourt wins

One of the merits of this production, directed by Richard Trethowan, is that the Harcourt-Alithea attraction is singled out from the rest as soon as they meet. It would be perfectly possible to play the piece as if they were much the same as the others: similar wigs, similar costumes and

going in for the same sort of scheming. Trethowan's direc-tion manages to make a distinction that helps to hold the

remains largely a sexual romp between unfaithful women and mainly stupid men.

The country wife herself, played by Kerry Higgins, takes to London ways within 24 hours of arriving in the capital,

which are plainly lost on a modern audience, and possibly on the cast as well.

one would expect. However, it is a small part and one cannot help thinking that it might have been more adventurous to try her out as the country

wife.

Ms Fielding is in danger of always playing Ms Fielding. Besides, there is no reason why the wife should be quite so country-bumpkinish. It would add new life to the play to sive

add new life to the play to give her a touch of style. The performance on Thurs-day was stricken by the

Malcolm Rutherford



Fenella Fielding

Young Vic new season

Following the successful Save the Young Vic Campaign, David Thacker has been given a five-year contract as Director of the theatre.

The Young Vic's new spring summer season includes Trevor Nunn's first production for the company, Timon of Athens

with David Suchet and Sean O'Casey's The Plough and The Stars directed by Sam Mendes and starring Judi Dench.
The season will also include Tom Kempinski's Ser Please, We're Italian! with Helen Mir-

ren, directed by David Thacker.

play together. Otherwise, The Country Wife

As such it is tolerably good fun, though it could be cut. I see no point in retaining pas-sages of restoration satire

The production includes fenella fielding as Lady fid-get. She is very good, as

seasonal 'flu. John Moulder Brown as Horner had suffered during rehearsals and Keith Bridgwater had to step in at the last minute to play, rather well, the part of Pinch-

Possibly that explains the initial slowness. Whether it excuses the slight tattiness of the wigs and drossness of the sets is another question. Also, the Mermald was not much more than half full. Restoration comedy deserves



The Temple of Friendship at the rescued Russian palace of Pavlovsk

ARCHITECTURE

Books with style

Style is a difficult thing to pin down. It is of course related to fash-ion, but when it comes to architecture it is something which develops slowly. There were hints of the Gothic revival long before it took off in the 19th century. In England, a glance across the Channel showed us that the Bauhaus-driven Modern Move-ment was on its way — it just wasn't welcomed until late in

the day. It is the written word and the photographic image that spreads the message of style, and this season's crop of archi-tecture books gives many clues about stylistic preoccupations and their future. It is a brave publisher who promotes a com-pletely new idea - and much architectural publishing inevitably follows trends rather

Near my home in London a giant new bookshop has just opened which has an enormous section devoted to architecture, art and design. It is almost as large as that devoted to cooking and gardening. This, I thought, was extremely encouraging, but so many of the books reflect fashion and ideas that are currently marketable rather than staple classics or provocative new

It might be helpful just to see what is the architectural equivalent of Monet or Impressionism in the book stores.

There are two main strands.

One is the continuing interest in things classical and neo-classical, although I suspect The other is an attempt to market a new style which is something to do with "new modern-ism" or "neo-modernism" anything so long as it is not post-modernism, which is seen as being old hat and disan-

pointing. However, this year there has been a third thread and that is poor old Charles Rennie Mack-intosh. I used to be interested in the old Scot but, poor man, he has been so over exposed, copied and published - especially during Glasgow's spell as Europe's cultural capital, that i, for one, would like a break from his anxious, angular

style.

The best book of the year for me was a book by the master of architectural writing Sir John Summerson, The Unro-mantic Castle and Other

Essays, (Thames and Hudson £24). Any new book by him is an event but this is in fact a an event but this is in lact a series of earlier writings col-lected together in one volume which gives a perspective to many of his later and more sig-

It has a lucidity and pleasure in language which seems almost to be forbidden by architectural publishers today. One reading of Summerson's essay on Sir Edwin Lutyens's Liverpool Cathedral design is as valuable as ten new books on classicism. Few books really enlighten as this one

The English Town by Mark Girouard (Yale £19.95) does the other thing that good architec-tural should do: it makes you look at what is around you in a new way. His tour of England should be compulsory reading in schools as well as put in lots of Christmas stockings. His clear way of writing history makes a complex sub-ject accessible and the Illustra-tions add information and

I love reading about one building in detail and I was especially stirred by the tale of the rescue of Pavlovsk, the Russian palace to the south of St. Petersberg, Pavlovsk by Suzanne Massie, Hodder and Stoughton £20. How long before the city readopts its old name? I predict it will change it on the occasion of the Pope's visit to Russia. This incred example of the arts of Russia's golden age was razed to the ground during the siege of Len-ingrad and then rebuilt by ndreds of volunteers as a monument to the Russian

Suzanne Massie is a Fellow of the Harvard Russian Research Centre and she also enjoys the unusual distinction of being the first westerner to have bought a flat in Leningrad. It is a moving book. I was touched by the incredible devotion of ordinary Russians to the palace and moved by the great beauty of Maria Feodorovna's creation. I recommend this book for a long fireside read because it is the cheering story of a victory and of popular devotion to culture. It is also a revealing account of the rigorous nature of Russian restoration. I should send copies to those responsible for the

poor work at The Queen's House in Greenwich. Neo-Classical splendours are superbly published and chroni-

fills a gap in our knowledge Neo-Classicism in the North -Swedish Furniture and Interi-ors 1770-1850 by Hakan Groth (Thames and Hudson £28) is a book I have been waiting for ever since I first visited Sweden and enjoyed the pleasures of a visit to Haga especially seeing that precur-sor of modern architecture, the mirror hall in the King's

The real pleasure of this book are the photographs by Fritz von der Schulenberg. I think he is one of the very best the world and he has an under-standing of the subject that makes his work more illumina-ting than mere records. There are plans and original sketches - those by Desprez are mar-vellous - and although the text veers towards the ch especially about the Swedish royal family, the book deals well with a neglected

Jonathan Glancey is an advocate of the new and his book, The New Moderns (Mitchell Beazley £25) actually talks about "nostalgia free" interiors. It is a modest book at a high price but it is particu-larly to be recommended for the quality of Richard Bryant's photographs and a special sort of insight into emptiness.

For travellers by far the best architectural book this year is The History of Architecture in India by Christopher Tadgell (Architecture Design and Technology Press, £65). Although large and difficult for the rucksack it is essential to read it before going on the trail. In fact it is perfect for the armchair traveller too.

I will probably get into trouble for not giving more space

to one more book but Women in Architecture, a contemporary perspective by Clare Lorenz (Trefoil, 222), is a challenge to all mere males. I enjoyed the individual essays on each practising woman architect, although I could not see significant differences between what women design and what men design, which was a disap-

It is clear there should be more women in every profes-sion, including the cabinet and the church. Only then will we stop emphasising our differ-ences. This book is an ideal present - for a man.

Colin Amery

Die Fledermaus

This Johann Stranss fils revival, sponsored by Midland Bank, is good holiday fun. It offers a lot of excellent singing, and the action - in John Cox's "new" 1989 production with the old; still handsome Julia Trevelyan Oman sets – is swifter and tidier than the 1977 original ever was. That was committed to multilingual jokiness, and sacrificed all the farcical ten-

it proceeds, and probably as the run itself proceeds the whole operatta will pick up extra conviction. Readers who have tickets already should stop reading now: finicky, querulous comments are on the way, more welcome to those who failed to book in

Getting John Mortimer to do an English text was an inspired idea, but in practice it has two drawbacks. One is that has two drawbacks. One is that his urbane ironies need expert high-comedy actors to deliver them; few of the singer-speakers here would get through a "straight theatre" audition, and the spoken parts of Act 1 suggest amateur-night. The other is that it is full of up-to-date knowingness: that undermines the springs of the farce, which is built upon 19thcentury threats of grave social and marital embarrassment, as in Feydeau or Labiche. If everybody is too sophisticated to be at that kind of risk, the comic anxiety is reduced to a mild charade

The revival boasts two particular ornaments. Bonaventura Bottone's Italian-tenor swain is an unqualified delight, throwing off all his pop-snatches of opera with ringing conviction, including a fine Pavarotti cartoon, and bran-dishing a rich ice-cream-man accent - he is British-born of Italian origins - but with all



John Sessions and Judith Howard

that irrepressible verve he never scene-steals. His partners must love him. The other great success is Judith Howarth's parlour-maid, Adele. Though her prissy-Miss elocution was a nui-sance – Adele isn't a Roedean sance - Adele isn't a Roedean
au pair - the "Laughing
Song" was most elegantly
turned, and she brought her
Act 3 "See how versatile I am!" showpiece - a dated, usually blench-making routine - to brilliantly confident life.

As Eisenstein, the dodgy central chap, the baritone Louis Otey developed better and better along Leonard Ros-siter lines; and if Nancy Gus-tafson's Rosalinde was a touch brittle and charmless in Act 1, she rose to a fine, mettlesome Act 2 Csardas. Though young Anthony Michaels-Moore was mostly a bland, one-note Dr Falke, he justified himself entirely when he led the "Bru-derlein" waltz. John Dobson is a seasoned lawyer Blind, like Glenys Groves' tough sister Ida. This time Prince Orlofsky is a counter-tenor, or as Jochen

Kowalski sings him - with shoulder-heaving emphases - a forceful, incisive soprano: eldritch, but theatrically right

Hyper-charged John Sessions is the comical gaoler Frosch — as in all British productions, a cousin of the Porter in Macbeth. His superior, Eric Gar-rett's ripe Colonel Frank, enjoys fewer good lines. Rich-ard Bonynge conducts, presumart bonyinge conducts, presum-ably because his wife Joan Sutherland was originally to have sung Rosalinda. Though we know that Bonyinge has his unimpeachable moments, flexi-bly alert rhythms - on which Die Fledermaus depends for its musical wit – have never been his forte. Here the canonical teasings-and-hesitations are stiffly rendered, as if by numbers; the best tunes are well set off, and yet the essential waltz-spring - hasty second beat and, or, delayed third beat is nowhere felt. Maybe that

David Murray

Martin centenary

KONZERTHAUS, VIENNA

The centenary of the Swiss composer Frank Martin (1890-1974) has passed almost unnoticed in Britain. While a large proportion of his life's work still awaits evaluation in this country, there is every reason for anybody interested in his music to feel aggrieved especially when one looks at the exhaustive coverage given during the course of the year to his exact contemporary,

Martinu.
To catch a major and rarelyheard work by Martin, the place to go was Vienna. No surfeit of Messiahs here. The Konzerthaus, the city's "other" concert-hall just across the road from the world-famous Musikverein, chose as one of its seasonal attractions a concert performance of Martin's Le Mystère de la Nativité, an oratorio rather than an opera, even though it was staged at Salzburg in 1960, a year after

The concert was to have been conducted by Paul Sacher, now in his mid-80s but still active. Sacher has done more for Martin's music than any other surviving individual, commissioning work and con-ducting many of the first performances, a long-standing champion of the kind Martin needs. So it was unfortunate when illness forced him to withdraw, leaving the concert hands of Manfred Honeck

in the otherwise very capable The good news was that the last-minute substitution seemed to have no adverse effect on the standard of the performance. Le Mystère de la

Nativité is not technically a difvocal parts are restrained and ficult work for its performers to handle, but it does require a contemplative, modal rather than tuneful. It falls to the sense of elevated rapture and soprano, who doubles the roles concentration that is not easy of Eve and Notre Dame, to embody the work's highest to sustain over a period of two hours or more. The theoretical ground-plan of the piece is aspirations and there the evening was blessed with a near ideal singer in Françoise Poldivided on to three levels. At the bottom is Hell - xylo-phone, drums, and some spoken text. In the middle are the scenes on earth for orchestra and soloists; at the top the heavenly scenes, with choirs and harps, mystic, expansive and simple. In practice, though, the contrasts make far

The overwhelming impression is of a single tableau, often static, at best slow-mov-ing. The musical style is stripped of all inessentials and aspires to a feeling of rarified grace similar to that which permeates the late works of Fauré. What one misses is the French master's ability to create a long-term feeling of underlying harmonic power. like a magnet that draws the ear on, no matter how still the music may seem on the sur-

less effect than they might.

let, luminous in tone, calm, poised. The beauty of her sing-ing easily justified the fast-rising reputation of this promising French lyric soprano. Altogether the nine soloists required were of a notably high standard. Jean-Luc Chaignaud, as Adam and Joseph, provided a sure partner to his soprano

and Penelope Walker made the pulse of the music beat more ardently at the end of the first and third parts, where Martin builds to finales of exultation and jubilation respectively. Budapest and the Vienna Symphony Orchestra responded with confident, sensitive music-making. In all, a highly commendable centenary

As one might expect, the Richard Fairman

Wembley Arena

the Arena on Friday night. Thousands of young men with staring eyes, crazed with pow-erful emotions, raised their arms in adulation as they shouted "The Leader, The Leader," at the small distant figure, who gave them words of comfort — that they were beautiful, that he was here to

No need to worry. It was just the Bacofoll Kid making his nineteenth come back. Gary Giltter has joined the Queen Mother, Frankie Howerd and Red Rum as part of the national heritage mainly because he shares their powers of survival. Heaths may come and Thatchers may go but he still stomps around the stage, looking like Liberace hamming it up as Mussolini, singing the praises of the great god Rock

and Roll.
Judging by their youth his audience are sons and daugh-ters of Gary, no doubt hooked because his songs are the baby talk of pop, so simple, lyrically and musically, that they picked them up in their prams way back in '72 and have never been able to dislodge them. The appeal is dangerously infectious, like the hokey cokey. The urge to join in the unchanging chant is

In fact a Gary Glitter concert is not much fun unless you obey his instructions and sing to yourself, clap yourself and tell yourself that you are beau-tiful. The Leader does very little but wear lots of silly costumes and press the right buttons. We get a run down on recent Glitter happenings: the good news, "I've been without a record contract for six years". And the bad, "I've just signed a deal with Virgin". (I may have got this round the wrong way). However, if any

new songs were included in the show they were incorporated into the ouevre as seamlessly as a rubber boot into quick-sand.

Perhaps we can't expect Gary, at his age, to do it like Madonna but I could have done with fewer chases around the stage, followed by his nimble band, with less rolling around baby, and body beautiful poses at the top of the central staircase; and with none at all of the pelvic twitching.

In the time saved we could have had some music. Seldom can a near three hour show have yielded fewer songs; never can an audience have been revved up with such incessant commands to get ready, to applaud, to enjoy, to

love itself.

The foreplay was so stretched out that there was bound to be an anti-climax. However, we did get cos-tumes that Danny La Rue would break a nail for - black leather; red Santa: white fur plus all the trimmings, an impresssive band with two drummers that could have powered a space probe, and a good natured audience of Glit-

For all its banality, and superficial bombast, Gary Glitter's Christmas Show was more fun than the average office party, which, in the way predictability flattened anticipation, it much ressembled.

Antony Thorncroft

Constable exhibition

The Tate will hold a Constable exhibition, focussing exclusively on his landscapes, and sponsored by Barclays Bank, from June 13 to Septem-ber 15.

EUROPEAN RELOCATION

The FT proposes to publish this survey on

June 17th 1991.

It will be of particular interest to the 61,000 businessman involved in decision making about Office Property who are also regular FT readers. If you want to reach this important audience, call Clive Booth on 071 873 4152 or fax 071 873 3078.

FT SURVEYS

MUSIC

London

City of Loudon Sinfonia conducted by Richard Hickox, with soloists and chorus. Han-del's Messiah. Barbican Hall (Mon) (071-638 8881). Orchestre de Paris conducted by Semyon Bychkov, with Jean-Philippe Collard (plano). Berlicz, Saint-Saens, Mahler. Barbican Hali (Tues) (071-639 8891). English Baroque Soloists con-ducted by John Ellot Gardiner, with Malcolm Bilson. Schu-mann's plano concrete. Manfred mann's piano concerto, Mantred overture and first symphony. Queen Elizabeth Hall (Tues)

(071-928 8900).
English Chamber Orchestra conducted by Martin Neury, with soloists and the Westminster
Abbey Choir. Christmas music.
Barbican Hall (Wed) (071-638 891). London Sinfonietta conducted by David Atherton, with Michael Collins (clarinet). Copland, Royal Festival Hall (Wed) (071-928 8800)

cademy of St Martin in th Fields directed by Iona Brown, with Barry Tuckwell (horn). Moz art. Royal Festival Hall (Thur)

Paul Knentz Orchestra and Choir conducted by Paul Kuentz. Handel's Messich (Mon). Salle Pievel (45638873). Jean-Yves Thibaudet, piano recital (Tues). Salle Gavegu Maria Joso Pires, piano, Mozari, Debussy, Schuhert (Tues) Theatre des Champs Elysées

Budapest Symphony Strauss Orchestra conducted by Istvan Bogarwith Soplanae Ballet in Vlennese music, dances and waltzes (Wed, Thur). Salle Pleyel

Ensemble Orchestral de Paris conducted by Armin Jordan with the ocal Ensemble Michel Piquemal. Florentz, Haydn (Thur). Saint Nicolas des Champs (42771883).

(427/1883).
Orchestre National de France
conducted by David Zinman.
Elgar, Ives, Sibelius (Thur).
Theatre des Champs Elysées (47203637).

Belgian National Orchestra conducted by Brian Prestman with Peter Zazofsky (violini), Atar Arnd (viola). Salieri, Mozart, Bach (Tues). Palais des Beaux-Arts (507 82 00).

Frankfurt

West Side Story, with the entire original production directed and choreographed by Jerume Rob-bins (Wed, Thur). Alte Oper. Rome

John Nelson conducting Berlioz' L'enfance du Christ (Mon, Tues). Auditorium in Via Della Conci-

I Solisti Veneti conducted by Claudio Scimone playing Vivaldi, Bach (Mon). Tentro Alla Scala

Madrid Symphony Orchestra and Principe de Asturias Founda-tion heir, conducted by Gaetano

December 14-20

Delogu, with Thea van der Put-ten (soprano), Rachel Ann Mor-gan (contralto), Manuel Cid (tenor), Wout Oosterkamp (bass). Handel programme (Mon), Audi-torio Nacional de Musica (337

Spanish Chamber Orchestra con ducted by Victor Martin, Bach ducted by Victor Martin. Bach programme (Tues). Auditorio Nacional de Musica (337 01 00). Montserrat Caballe (soprano), accompanied by Miguei Zanetti (piano). Stradella, Gasperini, Giordani, Galtuppi, Puccita, Ros-sini, Pacini, Debussy. Montsal-vatge, Serrano, Chapi (Thur). Auditorio Nacional de Musica (337 01 00).

7400).
New York City Gay Men's Chorus conducted by Gary Miller.
Balcom (world premiere), Susa, Nelson (Tue, Wed), Carnegle Hall (247 7400). New York Philharmonic conducted by Samuel Wong with Westminster Symphonic Chair. Mendelssohn (Tue, Thur). Avery

Oratorio Society of New York, Handel (Mon). Carnegie Hall (247

New York

Musica Sacra conducted by Richard Westenburg, Handel (Thur). Washington

Fisher Hall, Lincoln Center (874

National Symphony holiday pops concert (Wed, Thur). Concert Hall, Kennedy Center (467 4600).

Chicago Chicago Symphony Orchestra conducted by Erich Leinadorf. Stravinsky, Prokofiev (Tues); Klaus Tennstedt conducting, Mahler (Thur). Orchestra Hall

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Monday December 17 1990

Europe's new defence role

The need for "a European defence identity", the subject of one of the European Community's intergovernmental conferences, has not always been obvious. For most of the post-war era, western Europe. threatened by Soviet military power, considered its defence links with the US to be much

Indeed, Nato's unity, coupled with its imaginative policy of pursuing political détente and disarmament in tandem with maintaining military strength, has given Europe an unprecedented 45-year period of peace.
That is not something which should be given up lightly.

Yet it is clearly not possible, either, to soldier on exactly as before. The new interest in a European defence identity is not just a product of Euro-ide-alism. It is the result of a hardheaded analysis of the situa-tion following the collapse of the Soviet and eastern European communist systems and last month's conventional

The disappearance, for the moment at least, of the Soviet military menace in Europe and European forum to deal with threats to security, the CSCE, render the task of a purely western defence organisation such as Nato less obvious.

It would be extremely unwise at a time when the Soviet Union and some eastern European countries are threatened by political unrest and economic chaos, to envisage dissolving Nato, as has been suggested in some quarters. At the same time, the practical consequences of east-west detente in Europe and the much-improved relationship between the US and the Soviet Union, have to be squarely

Joint burden

In future, it is clear, the US military presence in Europe will be much smaller than it has been. The European members of Nato will necessarily have to assume a much greater share of the joint defence bur-

The corollary is that they will also expect to play a bigger role in the running of the alliance, and that presupposes a much more cohesive organi-

the EC does not provide a suitable framework for defence policy co-ordination, though its political consultation mecha nism already deals with the wider political aspects of secu-

union, a common defence pol icy raises the sensitive issue of a member of Nato's integrated pean pillar" of the alliance.

There appears to be a wide consensus that such a role should be played by the nine-nation Western European Union which, after lying virtually dormant since 1954, has finally come into its own by acting as the co-ordinating body for Europe's naval contributions to the anti-Iraq coali-tion in the Gulf. With some variations, Italy, France, Germany and Britain have all

be essentially the European pillar of the Atlantic alliance. as Mr Douglas Hurd, the Foreign Secretary, sees it, or mainly the new security and defence arm of the European Community, as French President François Mitterrand has in mind. For the WEU truly to become the defence arm of the have to be established between the two organisations.

principle on WEU's new role should be taken. Nato, which is currently conducting a fundamental review of its future strategic role, can hardly be expected to produce anything meaningful as long as the nature of its European pillar

Sensitive issue More even than a monetary

national sovereignty. Many member states, particularly France and Britain, would never accept majority voting on defence issues. Other obstacles are that the EC already includes one neutral state, Ireland, and is in due course likely to allow in others, such as Austria and Sweden. That, and the fact that France is not the Community as the "Euro-

opted for it as the best bridgebuilding organisation between Nato and the EC. That, of course, raises the question whether the WEU will

them trailing 29 percentage points behind the opposition. European Community, institu-Even loyal Tory voters had tional links would eventually grown disillusioned, the poll howed, particularly those who had deserted the Labour party in the early 1980s for Mrs The first priority, however, is that at least a decision in Thatcher's vision of a sociallymobile society.

Mr Jack Straw, shadow education minister, says disillu-sion stemmed from the fact that expectations outran gov-

renment's ability to deliver reform quickly. "They heard the sizzling but they couldn't see the steak," he says. With a new prime minister in Downing Street, the Tories have returned to the offensive in an effort to recover ground on what could be the single most important issue to voters (apart from the economy) in the next general election. In the process, there has been a marked shift of emphasis, as the words "market forces" have been dropped from Tory education vocabulary and Mr Kenneth Clarke, the education

🌂 ince Mr John Major Norma Cohen on the became prime minister just over three weeks ago, the British govern-ment's rhetoric on education Tories' bid to capture the has undergone a radical change as the issue has again leapt to the top of the political initiative in education agenda. While Mrs Thatcher held

office the Conservatives proclaimed the supremacy of market forces as a means of reforming an unresponsive

education system. Parental

choice became the buzz phrase

for Tory policy, culminating in the Education Reform Act of

1988. Under the then education secretary Mr Kenneth Baker the Tories carried out the most

complete overhaul of education

policies since the war.

The act aimed to raise aca-

demic standards through the

National Curriculum, which stipulated the basic subjects to be taught and tested in

schools. It also tipped the bal-

ance of power towards consum-

ers by financially rewarding those schools which could

attract the most pupils and by

removing decision-making from local authorities and plac-

ing it with boards of governors.

This last has proved the most controversial element,

along with the setting up of a

act was to put the Labour party on the defensive as opin-ion polls indicated that many

ered less than they promised.

ents who believe that the scale

The Conservatives are now

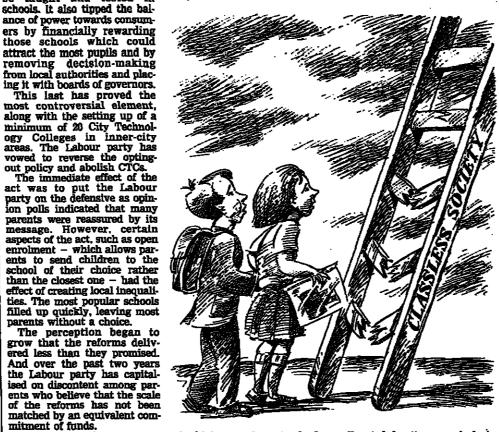
lagging badly behind Labour on the education issue. An

opinion poll taken in the last

few days of Mrs Thatcher's ten-

ure as prime minister showed

Back at the top of the agenda



the high ground on standards. But the question remains: can Mr Major deliver an improved service before the next election without straining the public purse, or are the changes mostly cosmetic?

As the government seeks to recapture the initiative, the distinctions between the two main political parties are becomingly increasingly blurred. Both parties, for instance, support a National Curriculum, local management of schools by boards of governors and open enrolment. Both say they are determined to raise standards, improve access to higher education and broaden training opportunities

for school leavers. Paradoxically, Labour had seized on the Tories' reluc-tance to impose mandatory nationwide teacher appraisal and itself endorsed the concept. This created the unusual spectre of a Labour party employing a "get tough" policy with teachers while the Tories demurred. Mr Clarke has moved swiftly to reverse the Tories' position and last week ordered mandatory appraisal. His decision held the Tories up to the charge of underfunding the system, as the £10m a year

allocated for the appraisals is roughly a quarter of the figure recommended by an independent body.

It is in the issue of funding

that the Tories are at their most vulnerable. Central government spending on schools nursery, primary and sec-ondary – has risen from £9.5bn in 1978-79 to £24.9bn in 1989-90, a real increase of 10 per cent. Meanwhile, enrolments in primary and secondary schools have fallen to 9.27m in 1987-88 from 10.63m in

For some people in the service, that increase has not been enough. Mr David Jewell, chairman of the Headmasters Conference of independent schools, described the Tories' funding of education – partic-ularly teachers' salaries – as "a national scandal". Investment in plant and equipment at maintained schools falls far short of what is needed, Mr Jewell said. He cites statistics compiled by Her Majesty's Inspectorate of Schools, the government's schools watch-dog, showing that on average state schools spend only £11 per pupil on science, while the private sector spends £39.

have to spend to overcome their skinflint image is-unclear. Labour will only say vaguely that it intends to spend more than the present government. For his part, Mr Clarke maintains that the Carre maintains that the Tories have been spending generously. "We have increased spending and intend to keep increasing spending," he said. But he admits: "There is no instant thing that either native. instant thing that either party can do to improve standards.

Mr Clarke, known for his pugnacious stance in dealing with health-care unions while with health-care unions while health secretary and for simul-taneously supporting public services, has toned down the language of choice and reaf-firmed government obligations to state education. He wants it to be made so good, he says, that no parent will choose to send a child to private schools.

One way of making state education better is to attract and keep the most able teachers. But this is one area where room for manoeuvre is limited. Local authorities have been allocated £17.5bn for their eduallocated 117.500 for their ent-cation budgets next year, a sum which the authorities esti-mate will cover a teachers' pay-rise of no more than 8.7 per cent. Currently the top base salary for a teacher with five years of service in a secondary school is about \$16.000 school is about £16,000. Unless Mr Clarke is able to

persuade the Treasury to release more funds for teachers' pay, his attempts to raise the profile of the profession will be difficult. Even if he does manage to extract more funds, they will not be allocated to teachers across the board. Mr Clarke stresses that any extra money will be awarded for longevity and merit, and to those who teach subjects - such as physics -where skill shortages exist.

Mr Clarke is also reported to back the creation of a Royal College of Teaching, similar to those for medicine and arts. This body would have no pay negotiation rights, but would set entry-level standards for the profession and determine training criteria. Such an insti-tution sounds remarkably similar to the General Teaching Council proposed by the trade unions and not wholly unlike the Education Standards Coun-cil proposed by Labour. The latter would act as a nationwide schools inspectorate, reporting to local education authorities on schools which failed to meet minimum academic standards and retain pupils beyond the compulsory

leaving age of 16. However, Mr Clarke shows little sign of departing from the Education Reform Act. He says he is committed to some of its most contentious policies including CTCs and the opting out of schools from local authority control.

So while he has signalled a significant philosophical departure on his own and Mr Major's part, emphasising stan-dards over market forces, so far he has adhered to the priorities of the Thatcher years. The indications are that any immediate changes in education will be more of style than of substance. That voters associate Tory policy principally with market forces "is an impression I will have to correct," Mr Clarke says. With good reason. While the rhetoric of the marketplace may win ideologi-cal plaudits, it rings alarm bells among many parents.

Gulf signals confused, but the resolve is intact

Peter Riddell argues that America's willingness to go to war should not be discounted

derious misunderstandings have emerged in the past two weeks over the US's Gulf policy – and President George Bush is in part himself to blame.

The impression has arisen in Europe and the Middle East that the US is now looking for a way out, for some form of compromise short of the United Nations resolutions that would enable it to avoid war at all costs. At the crudest level, some London papers have portrayed the US as no longer having "the stomach for a fight" and of "waving the white flag". Most fancifully, there have been suggestions that the departure of Mrs Thatcher has removed the

backbone from Mr Bush.
Much of this seems strange,
to anyone in Washington; it
absurdly overrates the influence which Mrs Thatcher had on Mr Bush. To US eyes, he is still taking a tough line, dis-missing talk of negotiations and holding firm over the timing of any talks to prevent Iraqi stalling. Indeed, the Bush administration has said the release of foreign hostages makes no difference to the

minimum condition of full Iraqi withdrawal from Kuwait. The US has made a deal more difficult by its opposition to a UN resolution endorsing a Middle East peace conference (except on condition that it is "properly structured and [comes] at the appropriate time"). This is to avoid any appearance of linkage with the Arab/Israeli dispute.

The misunderstandings originate from November 30 when justafter the UN passed a resolution authorising the use of force, Mr Bush suddenly reversed his policy and pro-posed high-level direct contacts with Baghdad. This was immediately seen overseas as the start of negotiations, especially with Secretary of State James Baker, a famed deal-maker, as the emissary.

The proposed meetings were largely a reaction to domestic unease and were intended to show that Mr Bush had gone "the extra mile for peace". Unfortunately, Mr Bush had

not consulted with his allies beforehand, though he rapidly did afterwards. He made clear that the purpose was to convey a direct message to President Saddam Hussein that either Iraq withdrew by January 15 or it would face war. The only inducement was that this would mean no US attack and the prospect of bilateral talks afterwards with Kuwait over

disputed territories.

Mr Bush somewhat naïvely failed to anticipate the over-seas reaction. This is partly because he only consults with a small group of advisers: Mr Baker, Defence Secretary Dick

Chency and National Security

Adviser Brent Scowcroft. State Department officials with knowledge of the Middle East are on the outer circle. Moreover, Mr Bush's concern for secrecy – and his delight in announcing surprises – pre-vents a wider debate which might show the pitfalls of a particular option or prepare public opinion for difficult decisions. Mr Bush informs rather than involves Congress. The danger is that he does not take sufficient account of outside views, and the realities of Middle East politics. Mr Bush sees the crists in stark terms, frequently drawing parallels with the appeasement of the 1930s and comparing Saddam Hussein to Hitler. Mr Baker talks of a "defining moment" in the post-cold-war

Another misunderstanding arose because of the national-ly-televised hearings of congressional committees when most witnesses, notably two former chairmen of the joint chiefs of staff and ex-defence secretaries, as well as leading Democrats such as Senator Sam Nunn, expressed concern about an apparent rush towards war. Instead, they urged patience and persever ance with economic sanctions.

These hearings were seen

overseas as showing that the US was as divided as it was during the Vietnam war and therefore Mr Bush could not order military action. But such open debates are the American way and have preceded every previous US involvement in war. Americans are traditionally rejuctant to become entan-

While there is a gap between international and domestic backing for a tough line, that does not mean that Mr Bush has decided against military action, or cannot go to war. The US public, though divided, generally backs his firm policy and there is very little dis-agreement within Congress about the goal of using force to secure Iraqi withdrawal, only about the timing. The odds must still be that Congress would, albeit reluctantly, back military action if the propos Baker mission to Baghdad (if it ever happens after the current to have failed to achieve a to have railed to achieve a breakthrough and Iraq has not begun to withdraw from Kuwait by January 15. Mr Bush would undoubtedly

still prefer a peaceful solution. But the US is not preparing to back down, and, if the current exercise in brinkmanship fails to produce a change in Iraqi policy in the next month, military action remains likely. Recent misunderstandings have made war more, rather than less, likely because they have undermined the credibility of Mr Bush's warnings.

Clearer rules for telecoms

WHATEVER detailed policies ernment's review of the telecommunications industry, which should be completed in the new year, three issues are clear. It will promote more competition. There will be con-tinuing need for tough regulation. But as a more competitive market develops, so the role of Oftel, the industry regulator, will have to change.

Professor Bryan Carsberg, Oftel's director-general, has done an outstanding job in prising open the telecommunications market and in encouraging the growth of mobile telephone services. Professor Carsberg's determination has set a model for the other regulators in the gas, water and

electricity industries.

There can be no lessening of Oftel's vigilance. The experience of the US, which is further down the road in liberalising telecommunications services, shows that forceful regulation is required for many years after the introduction of

competition.
Oftel will need to be on guard to make sure BT does not smother new entrants. Yet it is unrealistic to suppose that regulatory policies will be unaffected by the growth of competition. In the past six years much has depended on the quality of Professor Cars-berg's judgments in particular cases. In the future, while the regulator will still need some om for manoeuvre, competition needs to be based on clear and open rules rather than private, case by case determina-

Closed doors

The government is predis-posed to grant additional licences to operators to run telecommunications services and will assess applicants "on their merits", according to the recently issued consultative paper. This is too vague. Anyone should be able to run a telecommunications service unless there are overwhelming reasons why their entry into the market should be prevented. The criteria for blocking new entrants should be spelt out so that potential competitors know what obstacles they have to overcome. Entry should not depend on negotia-tions behind closed doors with Oftel and the Department of Trade and industry.

The duopoly has been diffithough there are only two competitors. Once there are many more competitors, the task of the regulator will become much more complex. The solution will be to regulate the market through clear rules within which all competitors

Explore options

The terms under which competitors will gain access to BT's infrastructure will be especially important. Entrants will want to compete with BT only in selected services. For example, a new long-distance operator will lay down its own trunk network to compete with BT. To offer customers a complete service it needs to link its trunk network with local net-works. At the moment the only local network available belongs to BT. The price BT charges for access to the local network will have a significant fledgeling long-distance com-petitor. Rather than leave this issue to the discretion of Oftel other options should be explored, such as a require-ment BT to published wholesale prices for its services.

To make such a system work
BT will have to disaggregate
and disclose the costs of run-

ning different services, to prevent it abusing its power by setting unjustifiably high prices. To encourage competi-tion there will have to be much greater transparency in the financial information BT pro-vides about the costs of its local, long-distance and inter-national services. An alternative would be to examine whether BT should be forced to demerge its highly profitable international services division. The separate accounts for its the extent of cross subsidy from international to domestic calls, as well as the relationship between domestic and business services. Only this transparency of costs and prices will allow consumers

and competitors to monitor whether they are being overcharged. The British telephone consumer has waited too long for real competition in services. Transparency in BT's costs and pricing is essential if that competition is to arrive sooner

secretary, has moved to regain

Gloria's

heritage ■ With the death of Prince Johannes Thurn und Taxis, Germany has lost one of its rare flamboyant plutocrats. Although the country is well stocked with the super-rich, they tend to be reclusive. Exceptionally, the prince and his young wife Gloria have been ceaselessly in the limelight.

Ten years ago, as a denizen of high-life parties and Germany's most eligible bachelor, the then 55-year-old prince married Gloria, an impoverished countess. She was 20 at the time, and had a penchant for punk hairdoes and Harley Davidson While the fairy-tale couple

with their baroque castle in

Regensburg were keeping the social gossip humming, trouble was overtaking the Thurn und Taxis fortune estimated between £600m and £1.7bn. The prince owned land covering some six times the area of Liechtenstein, and other jewels such as the exclusive Thurn und Taxis bank at the centre of a raft of financial-service enterprises The entire fortune passes to the male heir Albert, since last

Friday one of the world's richest 7-year-olds. But parts of the business empire, including brewing interests, had apparently become less than profitable. Plagued by failing health, the prince was increasingly worried about who would take

over control. Becoming suspicious that his top managers (engaged for the past three years in restructuring the empire partly for fiscal reasons) were creating a foundation intended to marginalise the family's influence while Albert grew up. Thurn und Taxis fired four of his most senior advisers over the summer. Enter Gloria, with hair

tamed and evidently studying

accounting. Having given

herself a year to learn the ropes, she has been a familiar figure at board meetings for

Now, however, events have outstripped her preparation, and her husband's ambition of leaving a simplified structure to control has been frustrated. As a result, her fate and that of the family wealth will doubtless keep the business as well as the social grapevine thriving for long

some months.

Missing Claus ■ Britain's perennial skills shortages are being felt in a new area at the moment. Good

quality Santa Clauses are in such scarce supply that department stores are poaching them out of each other's Christmas grottees, says a survey by Industrial Relations Services.

The independent research organisation says numerous stores are hard-pressed to find "the right sort of person" to embody seasonal goodwill.

Typically, it seems, that person must be white, male and of pensionable age.

Not that the job is a doddle.

The hours are testing, and the

pay is hardly enough to offer victims of City redundancies an enticing second career.

The best paid example found by the survey was in London, at the Broadway Centre in

Ealing, with £6 an hour for a 42-hour week with three But the hourly norm for Santas is only about £4.

Green dream

■ When visitors to Yokohama are handed the cards of certain of the city's officials nowadays, they promptly put the cards to their nose. The action does not mark the emergence of some new

OBSERVER to printing their names and job-titles in scented inks. The

reason is that the visitors have just been told the cards are made of recycled sewage.

"As far as I know, we are the first to make paper this way," says Senji Kaneko, head of the Yokohama sewage bureau's technology development division. "Only the Japanese would think of

Since the cards are odourless, "nobody notices until I tell them. Then the first thing most do is to sniff the card."

Lest the green parties should expect too much of a new environment-friendly method of making paper - one particularly suited to newsprint-production, cynics might say - the bureau chief stresses that the process is as yet far from usable on an extensive scale. For one thing, production costs are five times those of established processes. Yokohama nevertheless has

a good reason for funding a good reason for runding further development. The city's 3m-plus population produces 450m tons of sewage a year. "When you dehydrate that you've got 170,000 tons, and when that is burned you still have 15 000 tone of seles." have 15.000 tons of ashes." Kaneko explains.

As his bureau is running out of places to bury the ashes, "it's a technology with a

Noises off Meanwhile British researchers at Rank Xerox in Cambridge have apparently discovered that the increasing number of people who work from home often find it hard to apply themselves because home is too strongly associated with relaxation. The remedy, say the egg-heads, is to import an office atmosphere by

playing tapes of telephone cheeps, air-conditioning noises and suchlike.

At the same time, the neighbouring company Noise Cancellation Technology is developing a special chair for office workers unable to concentrate because of distractions. The chair identifies the sound waves of telephones, air-conditioning and so on, then emits a counter-signal with the net result of silence. But hang on a mo... Couldn't both problems be solved more cheaply by sending the noise-phobics to operate from home, and having the quietness-phobics work in offices?

Record chance ■ John Major still has a chance to improve on his achievement of one of the

shortest ever reigns as UK foreign secretary, as well as a brief career as chancellor of the exchequer. If he calls an election – and loses it – before March 28, he will become the shortest-serving

prime minister In that case, he would have served for fewer days than the previous record-holder, George Canning, who lasted just 120 in 1827. Ironically, Canning was the successor to Lord Liverpool, whose 15-year stint as premier was frequently cited as the target for Mrs Thatcher to beat.

The bad omen for Major is that Lord Liverpool's long rule was followed by a succession of short-lived premierships. Nor are the omens good for Kenneth Baker, the home secretary of that era, William Huskisson, was the first person on record to be killed by a

Producer?

■ Film-buff colleague seeks backers for an epic, starring Bob Hoskins in revolving bow tie, entitled Who Shopped Roger Levitt?

Johannesburg

17 December 1990

GOLD FIELDS GROUP

NEW WITS LIMITED (Registration No. 05/04822/06) ("New Wits")

SELECTED MINING HOLDINGS LIMITED (Registration No. 05/24731/06) ("Selected")

WITWATERSRAND DEEP LIMITED

(all incorporated in the Republic of South Africa)

Approval of Merger/Allotment and Issue of **Share Certificates**

The terms of the merger of New Wits, Selected and Wit Deep, which were set out in the scheme document posted to shareholders on 2 November 1990, have been approved by the shareholders concerned and, where applicable, by the Supreme Court of South Africa (Witwatersrand Local Division). New Wits has allotted new shares for issue to the relevant registered shareholders of Selected **Surrender of Share Certificates**

An explanatory circular containing a Form of Surrender has been posted to the registered shareholders of Selected and Wit Deep. Shareholders of these companies should submit the completed Form of Surrender together with their share certificate(s) to the Transfer Secretaries at the address shown on the Form of

Fractional Entitlements

Fractions of shares in New Wits to which shareholders of Selected and Wit Deep are entitled have been aggregated and will, if possible, be said by New Wits on The Johannesburg Stock Exchange ("JSE") at the best price reasonably obtainable for the benefit of the relevant shareholders. Cheques in respect of the net proceeds of the safe of fractional entitlements will be available from 31 December 1990, to such shareholders on surrender of their Selected or Wit Deep share certificates. However, should the net proceeds of such sale in respect of any one holding amount to less than R5.00, the full proceeds of the sale shall be retained for the benefit of New Wits.

Stock Exchange Listings/Dealings

The listings of the Selected and Wit Deep shares on the JSE terminated at the close of business on 14 December 1990. The listing of the new New Wits shares on the JSE commences on 17 December 1990. On The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, dealings commence on 17 December 1990.

(In the Republic of South Africa) Fergusson Bros., Half, Stewart & Co., Inc. (Registration No. 72/08905/21) (Member of The Johannesburg Stock Exchange)

(in the United Kingdom) Cazenove & Co (A member firm of The International Stock Exchange)

حكنامن لأصل

blow to the big chemical groups, bringing steep slides in third-quarter profits.

Daimler, which ships DMsbn

c(2.1bn) worth of Mercedes-Benz cars to the US each year, is experiencing an earnings squeeze from its sales in North America. Yet it is profiting from the eagerness with which east Germans have been buying second-hand western vehicles and from increased

vehicles and from increased

truck sales. Because of the jump in used car prices, many

west Germans have bought new models, thus keeping the car upswing going in Germany as it is fading abroad.

"This is a special German boom that we have," says Mr Gerhard Liener, Daimler's finance director. "How long it

will last I don't know. But it

will continue some time into

next year." Once it ends, "I

could imagine we will have an upturn in the economy of east

Germany to a degree that will give consumers enough pur-

chasing power to appear as

customers for new cars."
For that to happen, west

German and foreign companies will need to take up the invest-

ment challenge in the east. At present, uncertainties over

property rights, and environ-mental clean-up costs are still delaying spending decisions.

"The investment wave has not started rolling yet," says Mrs Renate Braun-Reiber, head of research at B Metzler, the

The latest information on

corporate finances suggests

that when the tide does turn in

east Germany, companies in the west will be in a strong

position to move in, even allowing for slacker growth or declines in profits as a result of

the strong D-Mark and lower exports. Bundesbank figures show that the pre-tax profits of

industrial companies rose by

10 per cent last year.
Thus the central bank reck-

ons capital spending will continue to rise, despite higher energy, wage and interest rate costs. VW plans to invest some

DM5bn in east Germany and Daimler DM2bn. Such projects

Frankfurt private bank.

they are aware that many of their markets abroad, notably the US, the UK and Scandina-

via, are moving into recession and that the Gulf crisis puts a question mark over the world outlook.

Thus, while Germany is by no means immune from the

economic problems starting to

afflict the rest of the world, its industry is in a position to offset much of the downturn else-

where by pushing goods into an east Germany where people have long been deprived of attractive, quality products.

German economists call this the "uncoupling effect", a handy term for the impact

eastern demand is having on the west German economy at a time when customers abroad are ordering less. The German

economy is assuming the loco-motive role, especially for western Europe, that the US was so keen to see it take on in

the mid-1970s. But this time, the propulsion is coming not from deliberate policy but from

the addition of 16m people.

Bringing the economies of

the new states up to the levels of the west will, however, cost huge sums. It is fortunate for Chancellor Helmut Kohl that

the economic pre-conditions for

meeting these costs are so

favourable, even though the costs are causing tensions in financial markets and concern

in Bonn and abroad. German

citizens in the east are helping

to finance their own recovery

by purchasing western goods.
As a result of this buoyant

demand, west Germany's real economic growth is likely to be

about 4.5 per cent this year

third-quarter growth was a vig-orous 5.5 per cent - after

nearly 4 per cent in 1989. Man-

ufacturing output should expand by 5 per cent, twice as fast as the rest of the European

Community. The benefits of eastern demand are most pow-

erful for companies - many of them small or medium-sized -

in the retail, consumer, and

construction sectors, where

foreign competition is limited.
It is bigger companies such

as Daimler-Benz and Volkswa-gen which tend to take a more

ambivalent view of events.

They stand to profit considera-

bly from business in the east, though most of their turnover

is outside Germany. The fall in the dollar, reflecting increasing pessimism in the US, dents the

DAY DECEMBER 17 1990 , but the erman managers could be forgiven for being in two minds these days. On the one hand, they are keen to take advantage of the opportunities in the five new eastern states of their country, already a source of surging demand for western goods, German and foreign. On the other hand, they are aware that many of is intact

l argues that ngness to go to t be discounted

Advisor Brent Scawcroft Sage Department officials who will be partment officials who will be after on the outer circle be servey and his delight is announcing surprises. Because the might show the pitals of a public operator for pitals of public operator for present decisions. Mr Bush information that my bear than involves Course that the danger is that he desired the sufficient account outside views, and the raine outside views, the crisis in satterns, frequently drawing for allels with the appearance of the 1930s, and comparing of dam Hussein to Hiller be thacker talks of a defining moment. In the post-odder era

Another misunderstants arose because of the natural ty-tulevised hearings of the parties of the pressional committees on most witnesses, notably be gressional communes the intest witnesses, notably in former chairmen of the inchiefs of staff and exchiencementaries, as well as leading secretaries, as well as leading secretaries, such as Senior

Democrats such as Sense Sant Nunn, expressed come about an apparent has towards war instead the urged patience and person ance with economic sactive These hearings were overseas as showing that is I.R. was as divided as it is during the Vetnam war 2 therefore Mr Bush could be order minury action Burn open delettes are the America way and have preceded as previous US involvement war American an man

ally reduct out to become one gled over e.c. While there is a gap better international and demest backing for a tough line & dees not mean that Mr Be has decided against mile mettern, or cannot so to me The US public though drag generally backs his firm pile and there is very link & agrecitions within Concre ate that the post of using force: secure 1994 windowal co about the turning The somust still be that congr would, adont containing military action of the prope Water mession: Raddalab where happens or the curen

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Constitution of the second of through, via mortgages, into the index.

manufacturing settlements have been running a percent-age point or so below the RPI over the last quarter. But annual productivity growth, although still outstandingly good in many companies, has fallen back from the rates of 5 per cent or more achieved in the 1980s. That means fewer firms are closing the productivity gap with international com-petitors. If a damaging deterioration in unit labour costs is to be avoided, pay settlements must fall still further, and quickly. The point is under-lined by ERM membership. In

UK today is clear. The CRI has never suggested companies should pay real wage increases equal to their individual productivity growth. As we made clear in a letter on these pages on February 21, "the Confederation of British Industry most certainly does not believe that there must be, or can be, some simple one-to-one relationship between changes in pay and changes in labour productivity. Rather the settlement

must reflect all of the circum-stances and needs of the company. And these vary. That is why we could not commend your advice. Settling pay on a basis of RPI plus, whether forward or backward looking, would cost companies

deputy director-general, Confederation of British Indus-try, Centre Point, 103 New Oxford Street, WC1.

A cushion against recession abroad

The effects of unity are providing a measure of optimism for German industry as international demand shrinks. Andrew Fisher reports

% change over previous		··1989**	1990	199
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chemicals	* A.S.	2.6	1	∵ ′; 0
CONSUMER GOOL	DS	3,8	.∕⊹ 5	2.5
food, drink, tobacco	ik ("2.8"	-10	4
		<u> </u>		3.5
TOTAL MANUFAC	TURING .	4.9	5 × 5 × 2	2.5

neering industry is gaining from internal demand, fuelled by investment in the growing east German market. Machinery makers, often highly-specialised, are working at such high capacity that the tailing off in foreign business – partly as foreign customers turn to suppliers who can deliver more

quickly - has come as some thing of a relief. East German demand has helped these sectors of west German industry:

• Cars. Production has touched monthly records and new registrations have soared.
The negative effect is that the autobahns are heavily congested. "The purchase of a western car takes absolute top priority in east German households," says Mr Bruno Kesse-ler, head of sector analysis at Westdeutsche Landesbank.
This year, he expects up to
800,000 cars to be sold there,
about a third of them new. Consumer goods. East Germans have been eagerly snapping up cosmetics, clothes, kitchen equipment, toys, televisions, video recorders and a host of other goods of a range and quality previously unknown to them. Those who streamed over the former bor-der to live in west Germany before the D-Mark's introduction in the east have given west German companies a con-

siderable lift. Those who

stayed put have also swelled

western order books The retail trade has seen business jump from the same sources of demand. This year is likely to be a record one for the sector, with a 9 per cent rise in sales (including inflation of about 3 per cent).

 Construction. This perennial sluggard in German industry has received a big boost. The influx of immigrants has boosted demand for housing and stimulated orders for building machinery. This is happening at a time when the need for new homes in west

Germany is already increasing because of greater affluence. "Construction will be a growth industry in the medium-term in a united Germany," says Mrs Lydia Korten-kamp, a WestLB economist. The population decline has been reversed by immigration from eastern Europe. And while demand for housing and public buildings will keep west German builders busy, the needs in the east are huge. There is enough work for an army of workers until the next century, putting up and rano-vating homes, offices, shops, factories, and public buildings, not to mention modern power stations, transport links and telecommunications networks. Food, drink, and tobacco.
 This sector has also long been among the weakest performers. This year, it is set to record a 10 per cent jump in production,

more than triple the rate of 1989. However, this year's growth rate in the whole sector is obviously a one-off develop-ment; next year's is likely to be

about 4 per cent.

The reinvigorating effect of unity has masked the effect of falling exports, which in turn are bringing down Germany's embarrassingly high trade and current account surpluses. Goods and money are thus being diverted into a needy east Germany at a time when the country is all too aware that bringing the new states up to the economic level of the west will cost hundreds of billions of D-Marks. Hence the Bundesbank's desire for a strong currency and high interest rates to keep inflation at bay and attract funds into Ger-

causing as many alarm signals to sound at German companies as it would have done in past years. "The slowdown in for-eign business has not really damaged sentiment in indus-try," says Mrs Braun-Reiber. Inevitably, the pace of inter-nal demand will slow down as the post-unity consumption wave fades and recessions elsewhere in the world take greater hold. "Germany is so strongly anchored in world markets that it can't completely escape downward influ-ences from abroad," says Mr Kesseler. Thus, WestLB esti-mates that west German manu-

Exports, therefore, will con-tinue to suffer. But this is not

facturing growth will ease to a rate of 2.5 per cent in 1991; the bank is looking for expansion of total gross national product of 3 per cent. Once the industrial desola-tion in the new states is fol-lowed by rebirth, however painful, economists expect the

timulus for growth from east Germany to continue to liven up the all-German economy for many years, adding up to a percentage point to national growth. Mr Wolfgang Leoni, an economist at Metzler, reckons that even with a high economic growth rate of 8 per cent in east Germany – similar to West Germany's in its postwar "miracle" years — it could take more than 15 years before GNP per head reaches the west Ger-

So while consumers canno continue indefinitely to fuel mand at its present strength, more resilient phase of investment-led growth in the east should eventually emerge. There will be a lasting growth impact from the east," says Mrs Braun-Reiber. "Now, it is mainly a German affair, but our solo position will not last. Foreign companies will move in more eagerly once the econ-omy in east Germany picks LOMBARD

An unhappy Christmas for economy watchers

By Samuel Brittan

benign a name for those City writers - by no means all - who, after the UK has been little more than two months in the Exchange Rate Mechanism, are already chafing at its constraints and clam-ouring for just that devalua-tion and injection of budgetary red ink that membership was intended (by those who understood it) to prevent. Judging by the one-year forward quotation for sterling against the D-mark on Friday afternoon, the actual financial markets, as distinct from those who claim to speak for them, are working on the assumption that sterling will still be within its present band

a year from now. But one should be adult enough to reject quack medi-cines without trying to play down the severity of the ill-ness. For the recession, like the boom before it, is much more severe than either the Treasury or the mainstream forecasters to which it likes to compare itself, imagined or

If one averages together the past three months, unemploy-ment is now rising by well over 400,000 a year on a season-ally adjusted basis. The unadjusted figures, on which the media focus when times are bad, are likely to exceed 1.9m in February and could touch 2m if the winter is very severe. UK manufacturing produc tion in the three months to October fell by 2½ per cent compared with the previous three months - which would be reported in the American style as an annualised drop of more than 10 per cent.

Worst of all, however, is the December CBI monthly trends survey which shows a balance of 30 per cent of respondents expecting a fall in output vol-ume over the next four months. This is the biggest negative balance since August 1980 when it reached 43 per cent. What goes down will usually go up if the surrounding background and policy are right. Nevertheless, I am sure I should be forgiven if I devote this Thursday's Economic Viewpoint to ways in which the self-correcting forces of the

economy can be encouraged. (More festive items, such as the bestowal of prizes for the best alternative expression for teenage scribblers, or nomina-tions for president of a minimalist European federation, will have to wait until nearer the new year.) But can we at least say that

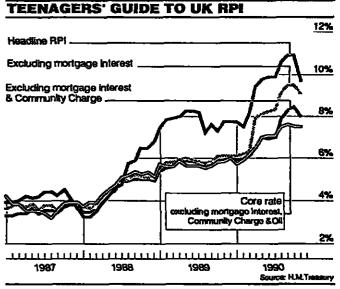
the UK is gaining some bene-fits from the squeeze in the shape of reduced inflation? There is every expectation of so doing. But I am afraid it has not happened yet. Just as the headline Retail Price Index overstated inflation ridicu-lously when it showed annual

riscs of 10% to 11 per cent in August to October, the latest fall in the headline rate is equally misleading. Some three-quarters of the drop in the headline rate to 9.7 per cent reflects the impact of the recent cut in mortgage rates, together with the effect of the November 1989 rise dropping out of the comparison.
The remaining quarter reflects
falls in petrol and domestic
heating oil prices.
The core rate of inflation.

excluding the poll tax and mortgage interest distortions and oil, remained unchanged at 7.5 per cent and has indeed hardly altered since August Perhans I should explain that which I call the core rate differs from the published under-lying rate in excluding oil, as well as mortgage and poll tax charge distortions. Although all the information for the core rate derives from official estimates, some Treasury officials seem to call it the "Samuel Brittan rate", as I may have stimulated them into calculat-

ing it.
The headline rate will fail further to about 9% per cent in December, as a result of fur-ther oil price cuts which came too late for the November index, and there will be some further mortgage effects. Some time in the course of 1991, when the Gulf uncertainties are over, the RPI headline rate will fall below the core rate and it will be the opposition rather than the government who will want to emphasise the latter.

Economics was once known as the theory of price. Yet most of the reports about adjustment to recession involve stock run-downs, lay-offs, asset dis-posals and almost everything except downward adjustment in prices — and wages are a particularly crucial price, whether people like it or not. Prices will adjust in the end. but until they do it is nonsense to talk of stimulating the econ-omy; and when they do it may



LETTERS

Pay bargainers should beware pitfalls of RPI

overseas profits of these will initially help suppliers in groups. It also represents a the west. Already, the engi-

From Mr R.H. Price.
Sir, Your leader ("Adapt now or pay later", December 7) rightly indicates that jobs will be needlessly lost unless pay settlements fall. But pay bargainers should beware your proposal of settling on the basis of the forecast retail price nasis of the forecast retail price index (RPI), plus an element for "feasible" real wage growth, with a guarantee to make up any difference. Had this formula been operating, the majority would have found themselves locked into an arrangement requiring higher settlements than they are actisettlements than they are actu-

ally attaining.

Devolved pay determination clearly works better than could artificial and contrived national "co-ordination". Settling locally by reference to their own circumstances —

and the need to remain competitive against international unit labour cost increases of no more than 2 to 3 per cent a year – those responsible for pay rises in the trading sector are achieving lower results than your form of central guid-

then your form of central guid-ance would have required.

The link between pay settle-ments and the RPI — whether forward or backward-looking — must be broken if competi-tiveness and jobs are to be pro-tected. Many elements in the RPI are beyond the control of employers — from the commuemployers - from the commu-nity charge to the price of oil. To tie a cost for companies like labour to something beyond management control - the ndex of consumer costs - is most unwise. The folly is com-pounded when the means adopted for containing consumer spending - rises in interest rates - itself feeds

France, pay increases fell from about 15 per cent to around 3 per cent following ERM entry, but even so half a million jobs were lost. The lesson for the

dear, and their employees too.

Subsidiarity amounts to a platitude

Joe Rogaly ("Europe in thrall to a slogaly ("Europe in thrall to a slogan", December 7) before enthusing about subsidiarity as the answer to Britain's fears of burgeoning Community power. As Mr Rogaly says: "it all depends, of course, on definitions — and that is the trouble". For subsidiarity amounts to no more diarity amounts to no more than the platitude: "as much decentralisation as possible, as much centralisation as necessary", which, of course, can

Intermediaries do benefit some

From Peter G.B. Wills.

Sir, One advantage of the intermediary system for stock lending, not mentioned in your article ("Money brokers step into financial limelight", November 22), is the benefit to small market makers. Under the present system, institu-tions will lend a variety of stocks, in a variety of sizes, to a moneybroker at a standard rate. The latter splits these stocks between large and small market makers, all of whom borrow on similar terms. In a direct lending system, institutions would, quite reasonably, prefer to lend large lines of stock to large, well capitalised market makers with

substantial parents. The small market makers, who service the private client market, would find it difficult to borrow the small amounts of stock they need except at premium rates. They would have to increase their dealings spreads, and thus the cost of dealing to the private client. P.G.B. Wills.

consultant, James Capel & Co, 6 Bevis Marks, EC3

From Mr Andrew Adonis and Mr Andrew Tyrie.

Sir, Your leader writer ("A democratic Community", December 13) should have read divest the Community of some Jacques Delors, too, has embraced subsidiarity. If M. Delors were also willing to Tyrie, Nuffield College, Oxford

Coupling ECB and BERD would enhance City's status

is not a participant.

This, however, ignores the

London starts from a base of trust and coupling the ECB to its sister, the BERD, could only enhance the City's status as the leading European financial

Charles Park, 11 Redburn Street, SW3.

of the functions which all com mon sense suggests should never have been given to it in the first place, of which rules on wild birds and cigarette packets are among the more farcical examples, then his claim that subsidiarity could protect the interests of members. protect the interests of member states might carry some credi-Andrew Adonis and Andrew

Sir, Martin Wolf's article ("Champions enter lists for Emu", December 12) finds that there would be little damage done to the City from the establishment of a European Central Bank in which the UK

advantages that can be gained from having the ECB, should it come to fruition, placed in Lon-

Not only are there employment opportunities to be had from servicing a large organi-sation (one could cite the example of the Parliament in Strasbourg), but also the finan-cial credence it imparts,

THE FUTURE IS NOT WHAT IT USED TO BE. Funny, isn't it, how views with Network Computing, the eyes of our customers.

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The Past, Present. and Future of Network Computing,

Out of the evil of the Kuwait crisis could yet arise some good: a strong UN

From Mr Frank Allaun. Sir, Contrary to US Defence Secretary Cheney's statement that the release of the hostages changes nothing, your editorial ("Linkage good and bad", December 7) rightly welcomes President Hussein's decision. Equally valuable is your appraisal of the new prospects. What will be even more important, you write, "is an assurance that, if he does with-

draw, Iraq will not be attacked". This advice is needed by at least two conservative newspaper editors, who urge that evacuation of Kuwait is not enough frag must be "destroyed", says one paper, and Hussein must be "toppled", declares another. If the worst disaster - war

involving a million servicemen

is to be avoided, it is hardly diplomatic to threaten the intended victim with this. Hussein has given up - in advance of any discussions his blackmail weapon - "an important concession on the road to negotiations", as you put it. The trade embargo, par-ticularly on oil, which constitutes 97 per cent of Iraq's exports and which is now complete, is beginning to bite. Another hopeful sign is that

block a UN conference on the whole Middle East, including Israeli/Palestinian peace. It could just be that out of the evil of the Gulf crisis may emerge something the wor has been waiting for since the UN was founded 45 years ago: collective security against aggression. Frank Allaum

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FINANCIAL TIMES

Monday December 17 1990



ANC presents talks deadline to Pretoria

THE AFRICAN National Congress yesterday ended its most important conference for 30 years with a firm commit-ment to continue negotiations with the South African govern-ment, although it threatened to pull out of talks unless a strict

timetable is adhered to. Delegates voted to maintain ANC support for all existing sanctions against Pretoria, though they agreed that con-sultations should begin on easing trade, academic, cultural and sporting sanctions. However, the European Com-

nunity's decision on Saturday to lift its ban on new invest-ment in South Africa, and to relax other sanctions as soon as apartheid legislation is repealed, pre-empted the ANC's more conciliatory sanctions policy. Resolutions passed at the

end of the three-day conference were couched in militant rhetoric, reflecting dissatisfaction among many of the 1,600 dele-gates – a large number of whom were youths - at con-cessions made by their leaders

at the negotiating table.
But Mr Nelson Mandela, deputy president of the ANC, appeared to have consolidated his authority over radicals in the movement, with the resolutions appearing to reflect little significant hardening in the WELLUME HOME



Oliver Tambo (left) at his welcome rally with Nelson Mandela and Walter Sisulu

ANC position on key issues.

The ANC did, however, impose a timetable on negotiations for the first time. It warned that it would "consider the suspension of the whole negotiation process" unless Pretoria acts before April 30 next year to halt township vio-lence, release all remaining political prisoners, allow exiles to return, repeal remaining security and other "repressive"

legislation and halt political

Progress in these areas has been stalled for months because of a dispute between the two sides over the ANC's decision to continue recruiting and training guerrillas despite its agreement last August to suspend armed action against The conference warned Pre-toria that it must act to end

ANC would consider resuming the armed struggle if this was Defence committees are to be set up to counter such violence, and will involve mem-bers of the ANC's military wing in what officials said was

violence, w<u>hi</u>ch has left more

than 1,000 people dead since August, threatening that the

which Pretoria is likely to reject as exacerbating unrest in black townships, reflects consensus within the ANC that violence has been inspired by the state to weaken the anti-

apartheld movement.

Mr Mandela stressed in his closing address to the conference that "the overwhelming majority of our people gener-ally and the delegates here in any and the designes here in particular support negotiations between the ANC and the gov-ernment", a statement greeted with applause from the floor. In a masterful address which

showed Mr Mandela at his most imperious, the ANC leader acknowledged criticisms from the floor that the ANC

Inching in from the global cold, Page 4

Polly Peck

By Clay Harris and

Polly Peck International, was still being held last night at Holborn police station in cen-tral London after being arrested on Saturday at Heathrow airport as the result of a Serious Fraud Office investiga-

yesterday and was being ques-tion last night at Holborn. Mr Nadir, under whom Polly Peck grew into a company val-ued at nearly £2bn (\$3.8bn) before a precipitous collapse, had been in Turkey and his native northern Cyprus for a month before he returned to Britain on Saturday.

Saturday was also the first time Mr Nadir had entered

answer all questions.

Polly Peck's shares were suspended the same day after losing more than half their value in a few hours' trading. Administrators were appointed on October 25, and the SFO searched the company's headquarters five days later.

plainly not going away. In the past ten days the bosses of

both Siebe and Carlton Com-munications have been moved to state publicly that they intend to appoint chief execu-tives below them. A chairman is being sought to curb the exuberance of Mr George Walker of Brent Walker. BOC is to split the two functions at the start of next year, only to join them up again a year

The argument about splitting the jobs of chairman and chief executive in UK companies is

It is not surprising that as

the UK goes into recession some institutional sharehold-

ers should seek to limit the power of the more autocratic

type of manager, at least in those companies which are

creaking under the strain. But it is dangerous to assume that one structure is better than

another regardless of the character of the company. It is not

obvious that Mr Tiny Rowland of Lonrho is constrained by

having a chairman set over

him, nor Lord Weinstock of GEC. On the other hand, some

of the more old-fashioned

There seems precious little

point in trying to impose such a structure on a first-genera-

tion entrepreneur like Mr

Walker. You either take him as

The recent tough words on

interest rates from various UK

Treasury ministers cannot dis-

guise the fact that the political

clock is ticking away all too

fast. There will be an election

you find him or not at all.

Mortgage rate

had failed sufficiently to conhad falled sufficiently to con-sult its supporters on major policy decisions. "The leader-ship has grasped the principle that they are the servants of the people and that they must seek guidance from the masses," he said. But in a remarkably candid attack, Mr Mandela firmly put down radicals within the ANC

down radicals within the ANC
"who play to the gallery,
whose aim...is to prove how revolutionary they are ... who are incapable of putting forward constructive ideas and who are quick to pull down what others have built."

Second man is held with

Richard Waters in London

MR Asil Nadir, chairman of

A second man was arrested

Britain since the home secre-tary, ordered a foller inquiry into "certain matters" con-

Mr Nadir was first ques-tioned by the SFO on September 20, the day after it sent police officers to search the premises of South Audley Management, a private com-pany owned by family trusts of which Mr Nadir is a princi-

On that occasion, Mr Nadir voluntarily accepted an SFO invitation to be interviewed. He was served with a notice under Section 2 of the Criminal Justice Act obliging him to

Background, Page 22

US-Iraq Gulf talks postponed indefinitely

By Peter Riddell in Washington and Richard Tomkins in Baghdad

THE FIRST of the proposed direct talks between the US and Iraq due to take place today have been postponed indefinitely, amid continuing brinkmanship over the timing of meetings but some fears that the chances of a peaceful

solution may be fading. Iraq confirmed yesterday that Mr Tariq Aziz, the foreign minister, would not be leaving Baghdad because the two countries had yet to agree a date for the reciprocal visit to Baghdad by Mr James Baker, the US secretary of state. Mr Baker was last night flying to Brus-sels for a meeting with Nato foreign ministers.

The US is seeking to avoid a Baghdad meeting too near the January 15 UN deadline for Iraqi withdrawal from Kuwait. The dispute, accompanied by increasingly strong language used by each side, points to a hardening in both sides' posi-

Mr Latif Jassim, Iraq's information minister, said yester-day: "If we start from a position where the US is dictating dates to us, then what are the chances of a serious dialogue

taking place? Several US senators currently visiting Saudi Arabia yesterday expressed concern that the region is nearer to war and urged early agreement on

the meetings.

Democratic Senator Bob Graham sensed that "the prospects of war are greater than they were two weeks ago in large part because of the way in which President Saddam Hussein is using the meeting as a form of manipulation rather than serious discussion."

Similarly, Rear Admiral Riley Mixson, commander of the US Navy Red Sea task force, said Iraq was acting as if it was preparing for war and

the chances for peace are "no better than 50/50".

Mr William Webster, the director of the Central Intelli-gence Agency, said at the weekend that the Iraqi leader would not withdraw his troops from Kuwait until convinced he "Is in peril of imminent military attack". Until then, the CIA believes, Iraq will try to stretch out the crisis by moves short of the United Nations The danger, Mr Webster

suggested, is that the Iraqi leader would continue to believe he could succeed "until the first shell is lobbed over

breakthrough rests on the pos-sibility of talks later this week between Mr Aziz and EC ministers in Rome. Mr Aziz had ear-lier accepted an invitation to

It was not clear in Baghdad yesterday whether this invitation would remain open with the Washington meeting called off. Iraqi officials said Mr Aziz was still ready to meet EC min

Within the US, Congressional pressure increased for much larger contributions by Saudi Arabia and other Gulf states, which have benefited substantially from higher oil prices, as well as by Japan and Europe to the costs of the military operation and of economic assistance to states hit by the

Mr Richard Gephardt, the Democratic House majority leader, released figures showfrom allies in Operation Desert Shield will cover only 29 per cent of the estimated \$37bn

BBC to broadcast World Service on TV

By Raymond Snoddy in London

THE GULF crisis has persuaded the BBC to launch a daily television version of its World Service radio news pro-

gramme in the spring.

The programme, which will provide part of the output of a new corporation subsidiary, BBCTV International, is due to start in March but could be aired sooner if Gulf hostilities

begin.
The news programme will initially run for half an hour. The aim is to move to three programmes a day within 12 months and add different language versions, possibly German and Japanese.
Mr John Tusa, managing

director of the BBC World Service, said yesterday: "The cri-

sis in the Gulf shows more clearly than ever the urgent need for World Service Televi-

"This new venture will provide [BBCTV International] with the springboard for us to launch a daily bulletin early next year."

After a period spent trying to raise external finance for a television version of the World Service, the BBC has decided to go it alone with a £6m loan arranged by J. Henry Schroder Wagg, the merchant bank.

The TV news service is being linked with the existing BBC TV Europe, available by satellite to nearly 7m homes in Europe almost entirely through cable television net-

works. About 1m subscribe to

The World Service television news will be part of the 18 hours-a-day subscription ser-vice broadcast all over Europe by the Intelsat VI satellite. Apart from world news the relaunched satellite service will include BBC English lan-

guage teaching programmes. Mr Christopher Irwin, controller of resources at the BBC World Service, will become chief executive of BBCTV

International.

"By developing the BBC's international business we aim to create a TV equivalent of BBC World Service," he said. Finance will come from the existing European earnings of

BBC Enterprises, the commercial arm of the corporation. The World Service Television News will also be sold to other

countries for rebroadcasting. Attempts to set up a televi-sion version of the radio World Service go back to the early 1980s but the government, which funds the radio World Service with a grant, refused to put money into a television

Apart from its own editorial resources the BBC has agreements to broacast news footage from Visnews, the interna tional television news agency, and NBC, the US network com-

Finance groups call for rapid Soviet reforms

Continued from Page 1

ing to restructure, and estab-lishing a social security safety net for the poor and jobless. It suggests that Soviet prices for energy and raw materials cannot be ruised to world mar-ket levels swiftly without bankrupting most Soviet enterprises, and suggests a tempo-rary system of border taxes to protect them. However, it also

says that such measures must be phased out within a time-scale of two to three years. The final version of the document is expected to be pub-lished in Washington this week, before it is presented to the Finance Ministers of the Group of Seven industrialised nations in January.

However, it is understood that the study will caution against granting substantial western aid until a coherent economic reform process is under way. Instead is is likely to recommend that such assis tance be concentrated on technical, legal and analytical advice rather than the pay-

WORLDWIDE WEATHER

US bank deposit fund warned that it may lose \$5bn in 1991

By Peter Riddell, US Editor, in Washington

THE FEDERAL FUND which insures US bank deposits is likely to lose \$5bn in 1991 folthis year, Mr William Seidman, chairman of the Federal

chairman of the rederal Deposit Insurance Corporation, warned yesterday.

Mr Seidman said the fund, already at its lowest level in its 56-year history, could drop to \$4bn in reserves by the end of next year, which was "clearly not sufficient; that's why we need a recenitalisation plan" need a recapitalisation plan."

Mr Seidman and the US Treasury are working on a recapitalisation plan which would be paid for by the banks.

Mr Nicholas Brady, US Treasury secretary, stressed that

the recapitalisation would be accomplished "through private sources alone, that is, the banking community". He also drew a sharp distinction between the collapse of the savings and loan industry, which had \$10bn of reserves when it got into trouble, and the banking sector which now has reserves of \$200bn-plus. Their comments were made on the eve of the rele report prepared for a House banking sub-committee which warns that the deposit insur-ance fund will not have enough money to cover expec-ted bank failures over the next

three years unless its resources At most the fund will have \$29bn-\$32bn over the next three years, compared with a conservative estimate of cost of between \$31bn and \$43bn. The total requirement may be as much as \$63bn if there is

deeper recession. However, Mr Seidman yesterday noted that with recapi-talisation the fund would have more than \$50bn in hand. "So at worst there would be small additional amount needed to be borrowed from the Treasury."
Mr Seidman was also highly critical of banks for continuing to maintain dividends when their earnings fall sharply. He will be working with other bank regulators to develop new controls in this

Ahead of a meeting of the Federal Reserve's policy mak-ing Open Market Committee tomorrow, Mr Brady said there was "ample room for a further reduction in interest rates". He declined to say whether

the US was in recession, though he acknowledged that there was a "significant slow-He said this was "a cyclical downturn. It will return to a good, strong level sometime in

Similarly, Mr Michael Boskin, chairman of the president's Council of Economic Advisers, said yesterday that any recession should be "mild and brief" if it occurred and he went on to predict that there would be a recovery next year.

chairman

A police spokesman said last night: "The investigation is continuing and at this stage I cannot tell you anything fur-

Mr Nadir had been sched-uled yesterday to meet admin-istrators appointed in October to oversee the affairs of the fruit, electronics and leisure company which has liabilities

of more than £1.3bn.
Two of the three administrators, Mr Richard Stone and Mr Christopher Morris, warned yesterday that the arrest might hinder their work. Administrators previously complained of "disruption" after the SFO searched Polly Peck's London offices on Octo-ber 30 and removed papers.

Mr Morris, who was appointed to look into possible claims against Mr Nadir and his fellow directors, as well as against the company's auditors and legal advisers, is thought to be investigating whether any of Mr Nadir's actions may have contributed to the group going into administration.

cerning Mr Wyn Jones, an assistant commissioner of the Metropolitan Police whose relationship to Mr Nadir had been investigated earlier.

pal beneficiary.

Sawing the chair in two

Halifax Building

Society General election

82 84 86 88 90 Source: Datastreom

within the next 18 months and UK mortgage rates are still standing at their second high-est level ever. They have to come down, and quickly too.
The Government's chance of
re-election would improve considerably if mortgage rates
were cut by around a quarter, say to around 11 per cent, by election time. The growth in home ownership from 56 per cent to 67 per cent over the last decade is one of its real success stories. But to win re-election

banks and insurers might ben-efit from swapping their tradi-tional figurehead chairmen for more professional managers. the Tories need to capture the votes of many of the 1.4m households which bought their council houses during the period. It is those skilled work-Much of the argument comes down to differences in corpo-rate culture. ICI gets on very well with a combined chair-man and chief executive, but has kept a vigilant eye on each ing class voters, so important to Tory election hopes, who are feeling the brunt of penal interincumbent ever since the twenty-year tyranny of Lord McGo-wan ended forty years ago. And since ICI tends to bring its The pressure for an early cut in mortgage rates is even more intense than this timetable directors up through the ranks, the chairman is surrounded on tuggests. Around 40 per cent of the country's 9m mortgage bor-

the board by powerful divirowers have their mortgage payments fixed once a year, with the agreements heavily weighted to the opening months of the year. Last October's ERM-inspired cut in interest rates only neutralised the previous one per cent rise in February. The 3.5m or so borrowers on annual mortgage sional barons very much like Similarly, a company like BOC can combine the two jobs precisely because it has a managerial culture stretching back over several generations. It also controls the chairman through a team of non-executives who exclusively man the rowers on annual mortgage agreements are not going to enjoy any reduction in their audit and compensation committees and can act as an upper supervisory tier of the board in case of crisis. If the monthly mortgage payments unless the authorities engineer a sizeable cut in interest rates culture does not exist, it can-not be invented overnight. within the next couple of

In the case of the vast majority of the Halifax's borrowers, for example, the mortgage rate will have to be cut before the end of January if it is to lead to lower payments next year. Given that the spread between base rates and mortgage rates is unusually narrow, base rates will probably need to be reduced by at least 1% percent-age points to trigger a one point cut in mortgage rates. The current bearishness is

good for building society

inflows. But next year they will be wanting to rebuild their margins, especially if any recovery in the equity market means they have to compete more aggressively for funds

This is the political backdrop for current interest rate policy. Base rates will probably have to fall to 12 per cent to get mortgage rates down to 13 per cent. This is still unusually high by historical standards and is not going to prevent a politically damaging recession. Despite the brave words of a new and untried Chancellor, the political pressure to cut interest rates is intensifying. The point has not been lost on the foreign exchange markets.

Capital goods

As the UK economy started slipping downhill this year, so investors stopped talking about earnings multiples and went back to stressing dividend yields. Perhaps the next ratio to start watching closely con-cerns order book backlogs, particularly in heavy capital goods. And for better or worse, in view of the huge European cross-border mergers and alli-ances since 1987, this means thinking in continental rather than narrowly British terms. An interesting investment theme for 1991 is the fact while earnings per share are either static or falling this year for the sector's juggernauts - Asea-Brown Boveri, GEC and Siemens - the order books are still

Lord Weinstock's cautious comments with GEC's halfyearly figures and the group's decision not to raise the interim pay-out are not hopeful signs, and the group's strategy is not yet proven. But a lot of the caution relates to defence electronics and the domestic UK bits of GEC. It is striking that at £11bn, GEC's overall order book is still standing at over 90 per cent of this year's likely group sales. One can find similar or better ratios at ABB, Siemens and France's

Demand may be slowing rapidly for smaller products, espe-cially electrical equipment for the building trade, something which has been hurting the likes of the UK's Hawker Siddeley. But at the bigger end, in power generation and rail transportation especially, the order book picture is healthy. thanks to things like the French trains à grande vitesse, not to mention East Germany. Added to that is the simple fact of market concentration - possibly bad for the European customer, but comforting for the shareholder in times like these.

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History -

Japanese remain modest con-sumers relative to their spend-

fluid power, special engineering. refined and wrought metals. IMI plc, Birmingham, England.

FINANCIAL TIMES COMPANIES & MARKETS

Monday December 17 1990



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INSIDE Kerkorian's baffling charge into Chrysler



Mr Kirk Kerkorian has a reputation as one of America's most skilled traders in corporate bits and pieces. But his latest move has Wall Street completely baf-fied. It was revealed last Friday that he has spent just over \$270m buying

up 9.8 per cent of the common stock of Chrys ler, the third largest US automobile manufacturer and a company with a large question mark over its long-term health. Martin Dickson

Linking Ireland with France

France's government bond market has replaced that of the UK as the benchmark for investors in Irish government securities. Fund managers track the relative performance of the French and Irish markets and switch funds between the two. Page 20

Into the Moulinex blender

A boardroom row has been settled, and Moulinex, the French maker of kitchen equipment, has decided to pursue its takeover of Krups, the German household appliance group. The argument was settled when Mr Jean Mantelet. Moulinex's 90-year-old founder, who has been in semi-retirement for the past two years, con-ferred his post as group president to Mr Roland Darneau, who was already managing director. Page 19

French Eurobonds display a marked change of image

It has shrugged off its image as a quiet haven for French retail investors. This year the French franc Eurobond market has become actively traded and truly international. The market's development has been boosted by the surge in new issue volume, the strong performance of French government bonds and grow-ing international confidence in the French currency. In addition, a more aggressive stance on marketing and trading by the French banks had paid off. Page 21

Market Statistics

Base lending rates FT-A World indices FT/AIBD int bood syce

Managed fund service Money markets New int bond issues US money market rates US bond prices/yields World stock mkt indices

Companies in this section

Economics Notebook

Casino Citicorp Inv Bank Denison Mines Dickson Concepts

James Capel 19 Société Générale

Gencor denies deal with Lonrho

By Philip Gawith in Johannesburg

GENCOR, South Africa's second dargest mining house, yesterday denied speculation that it was considering an outright merger with Lonrho, a move which would create one of the world's

largest mining groups.
Mr Derek Keys, Gencor's executive chairman, said in a state-ment, "Gencor is not considering merging with Londro. At the divisional level there are discussions from time to time aimed at possible synergies between businesses in the two groups." Mr Paul Spicer, a Lourho director, refused to comment on the spec-

refused to comment on the speculation yesterday.

Observers thought it likely that exploratory merger talks have taken place without progress having been made. In South Africa there has been speculation that something might be going on between fine two groups. This was fuelled by the recent behaviour of the Lourho share price on the Johannesburg share price on the Johannesburg Stock Exchange (JSE) which suggested strategic rather than

suggested strategic rather than purely investment buying.

In August and September the share price was respectively the fifth and third most actively traded share on the JSE. One analyst estimates that the three Cape based life offices - Old Mutual, Sanlam and Southern Life - bought approximately 11 Life - hought approximately 11 per cent of Lonhro's equity dur-ing the period. Most of the deals were booked through local Afri-kaans brokers Ed Hern Rudolph which lent credence to the rumours, given that Gencor's ultimate parent is Sanlam, the predominantly Afrikaans life

Gencor and Lonhro are already co-operating successfully in platinum. In October 1989 Gencor merged their new plati-num operation Karee with Lonhro's contiguous Western Platinum operation. In return Impala Platinum, Gencor's plati-num arm, acquired slightly over per cent of the profits of the merged mines and of Eastern Platinum, a Lonhro operation.

Local analysis are split as to whether a full-blown merger would make sense. Some wonder what interest Gencor would have in some of Lonhro's activities such as agriculture and hotels and suggest co-operation will probably be limited to the platinum field. Others see merit in the idea, suggesting that Mr Tiny Rowland, 73-year-old head of Louhro, might be looking for a means of bolstering his manage-ment team and bringing in a suc-

Administrators track Polly cash By Richard Waters and David Barchard in London

MUCH OF the £200m of cash belonging to Polly Peck Interna-tional which had previously been untraced appears to have been invested in hotels, holiday vil-lages and other leisure developments, according to the group's administrators.

The money represents the bulk of the £300m (\$585m) shown in Polly Peck's unaudited management accounts at the end of June as cash deposited in the near

The administrators had earlier been able to trace only around £100m of this, and had been hampered by a court injunction in northern Cyprus which barred them access to Polly Peck's sub-sidiaries on the island.

The two administrators responsible for investigating the finances of the fruit, electronics and leisure group – Mr Michael Jordan and Richard Stone of Coopers & Lybrand Deloitte – said in a statement yesterday: "It would consecut the process of the said in the content of the said in the said i would appear that a sizeable proportion of the cash balances reputed to be in the island have been invested in property assets in the island and Turkey, largely

associated with leisure property."
They gave no indication of the scale of these investments, or whether they had been made before or after the June management accounts which showed them as a cash balance. However, the 405-bed Sheraton

Voyager hotel, opened as recently as September, cost over £50m to complete. Cash held in the near East decreased by £160m between the end of June and the end of September, according to the management accounts. This has been explained by Polly Peck executives in London as the result of a seasonal increase in working capital. The administrators gave little away yesterday about the state of Polly Peck's businesses in the near East, the powerhouse of its steadily rising profits in recent years.

They reported only that Meyna, the fruit and vegetables subsidiary in Turkey, and the



leaves Holborn police station late yesterday afternoon

related packaging business had been profitable last year and in the first half of this year. These businesses had suffered a "sharp impact" as a result of the Gulf crisis, but still appeared to be concepting profitably.

operating profitably.
While the administrators have said little about what they have found since gaining access to Meyna in the past fortnight, bankers and analysts in Turkey have repeatedly questioned the scale and profitability of its operations. Its citrus fruit business in the port of Mersin had export earnings of \$4.5m last year, making it the town's fifth largest exporter.

This does little to explain its

reputation among City analysts as Polly Peck's biggest single profit earner. Mr Stone has said in recent weeks that most of Meyna's earnings come from the domestic Turkish market - a suggestion that is questioned by industry and financial sources in Turkey, where Meyna is regarded as a relatively minor force in the local market.

Mr Nadir left the UK for Istan-

bul and Cyprus on November 17. Since then, while several of his personally-owned businesses have changed hands, none of Polly Peck's businesses has been sold. For several weeks, its administrators have been saying that they do not plan to sell off

any of its businesses, at least until late March when they are due to present proposals for the group's future to 60 creditor

One of the group's star per-formers, Vestel, the Turkish con-sumer electronics group, last week said it had been given a

Slom loan by Goldstar of Korea to help tide it over.

Some of Mr Nadir's personal businesses have not been as lucky. Ten days ago, Bozkurt, one of his newspapers in Cyprus, was shut down. A similar fate overtook two Istanbul based magazines, Gelişim Spor and Erkekcu last week. A satellite television joint venture with a German company has also been liqui-

Last week buyers were found for Impex Bank of Istanbul, the small trade finance bank bought by Mr Nadir last year. It was sold for about \$25m.

Other enterprises, especially Mr Nadir's loss-making press empire, are struggling to remain afloat. Mr Nadir's principal lieutenant in Istanbul, Mr Fahri Görgibli of Gorman previous formatics. gillu, a former provincial gover-nor and one-time Turkish police chief, noted for his toughness, has played the main part in keep-ing the show on the road, trying to drum up funds to pay discon-tented employees at Mr Nadir's

papers.
Although it was generally reck-oned that the newspapers (Mr Nadir owns three in Istanbul, another three in Cyprus, and several of Turkey's leading magazines) would be the last to go, there was speculation last week that a French publishing group might be willing to buy them. Several Turkish publishers say they would like to buy Gelisim Yayinlari, Mr Nadir's magazine

Throughout the past month, few Turks were even aware that Mr Nadir was in Istanbul, still less that he had paid an unpublicised one-day visit to Ankara for talks with the government, evi-

Struggle to secure **News Corp** refinancing By Stephen Fidler,

Euromarkets Correspondent

A \$7bn loans package necessary to allay a liquidity crisis at News Corporation, Mr Rupert Mur-doch's debt-laden international media group, is proving a strug-gle to complete, according to bankers familiar with the trans-

A minority of the company's 150 bank lenders are objecting to 150 bank lenders are objecting to the package, which aims to res-chedule repayment dates on \$6.5bn of debt owed to banks and provide the company with a new short-term loan of \$600m. The bankers said that by late last week around three-quarters

of lenders had agreed to the pro-posal. One deadline passed without incident this month and the package may now not be agreed, as planned, by the year end.

The restructuring is necessary because of the heavy repayments schedule faced by the company next year. International banks have become extremely cautious about lending to highly-indebted companies and normal loan arrangements to refinance maturing debts would, it was thought, be impossible to arrange. While the support of the company's main lenders appears to be assured, some smaller banks in the lending group have said they want to be paid back. However, many lenders will usually only agree to such restructurings if all banks are treated equally.

The three-year restructuring allows for an \$800m repayment at the end of the first year and four semi-annual repayments of \$400m after that, a rate of repayment which bankers say suggests asset sales are likely. Lenders will be paid an extra 1 per cent on their current lending margin, and a front-end fee of I

per cent. Around 25 larger lenders are being asked to provide the extra \$600m in a 364-day loan. although other banks are free to join if they wish. That pays a margin of 2 per cent over interbank rates, rising to 2.5 per cen after six months. A 1.5 per cent fee is offered to participating

No longer the stuff of Turkish headlines

THE ARREST OF Mr Asil Nadir Ankara government official said simply the result of a Greek Cypattacks on Mr Nadir in the past. when it was finally announced on Turkish radio at 2pm local time yesterday, a sign of how Polly Peck international has slid from the top of the political agenda since the early autumn,

writes David Barchard. In recent weeks, the Turkish government has disclaimed all knowledge of the company's affairs - even though in September, one of President Turgut Ozal's ministers wrote to the UK government pressing the case for

a rescue operation.

"Polly Peck is a British company and Mr Nadir is a British business man, not Turkish," an

rect: Mr Nadir has Turkish and Turkish Cypriot nationality, as

well as British. Mr Güneş Taner, minister for economics and the government minister responsible for handling the Polly Peck affair, has brushed aside questions for nearly three months, telling journalists who pressed him at cocktail parties: "You wouldn't expect Douglas Hurd [the UK foreign secretary] to reply on this sort of thing."

Opposition politicians and jour-nalists privately accuse the government of partiality. Few people in Turkey seem to have bought the line that its troubles were although Mr Rauf Denktash, the Turkish Cypriot leader, said yes-terday: "Had Asil Nadir not been involved in Turkey and Turkish Cyprus he would not have run into these difficulties."

One of the group's main Turkish critics, the left-wing weekly magazine, Towards 2000, was shut down in June by the govern-ment, using special emergency powers aimed at suppressing dissent over the country's guerrilla war against separatist Kurds.

But over the last three months. coverage in the rest of the Turkish press has been remarkably limited, despite a welter of

"I thought that this was becaus no one understood a financial scandal here, but actually there seems to be a sort of secret embargo on the news," said one Turkish journalist after his investigative story failed to see the light of day. "But it may only be because newspaper proprietors are hoping to buy some of Mr Nadir's titles and don't want to offend him."

Most Turks until yesterday thought that Mr Nadir's prob-lems were over. The latest turn is likely to be deeply embarrassing for Mr Ozal and Mr Günes. Additional reporting by John Murray Brown in Ankara

banks. A separate \$1bn in loans arranged by Manufacturers Hanover to finance the takeover of the publisher, Harper Collins, is not included in the package, The leading banks, led by Commonwealth Bank of Australia in Australia, Citicorp in the US and Midland Montagu in the UK, are said to remain confident the restructuring will ultimately be agreed, because banks recog-nise the alternative – the col-lapse of News Corporation – would be disastrous.

Japan gets to grips with bubbles

There is a growing acceptance that booms can eventually burst

"BUBBLE" has at last become an 'in' word in Japanese finan-cial circles.

Normally, Japanese are quick to adopt the latest buzz words and labels from abroad, as well as being adept at creating a few of their own, such as zaitech and the short-lived

But, for fairly obvious rea-sons, they resisted as long as possible suggestions by (envi-ous?) foreigners that Japan's financial and economic booms of the past few years had many characteristics of previous great bubbles, with the impli-cation that they would ultimately burst. In the wake of this year's 40

per cent slump in the Tokyo stock market and the more recent sagging of property ficult to avoid the word, and most people have stopped try-ing. Indeed, it was given acceptable status last week when Mr Yoshihisa Tabuchi, president of Nomura Securities, evoked four bubbles in a party speech.

There were, of course, the stock and property market bubbles which, he hoped, had already burst. Then there was the bank asset bubble, and it was not quite clear that he would regret seeing it burst.
And, finally, he cited a consumer spending bubble – an
observation which perhaps revealed more about Mr Tabuchi's discomfort with some affluent life styles in Japan these days than about the economy. By any standard,

Japanese remain modest consumers relative to their spending power.

Mr Tabuchi went on to relate bubbles to beer, noting that even after all the froth was taken off, the beer underneath still tended to taste good.

If circumstances warrant, And its industries have been investing at a cracking pace to maintain their competitiveness. The fruits from some of that investment – aimed at using energy more efficiently – have been still tended to taste good.

Indeed, he felt that despite the setbacks suffered by the Japa-nese financial markets and economy this year, the under-lying beer was still tasting much better than it was four

He has a point. One cannot help but feel that some of the gloom and doom emerging in recent analyses of the pros-pects for Japan's economy and financial structure are rather

overdone.

No doubt the long boom that began in the spring of 1987 is coming to an end, but the econ-omy has shown remarkable resilience this year in the face of the stock market slump and the Gulf crisis. While the US and the UK are sliding into recession. Japan is cruising to nearly 5 per cent real GNP growth in the fiscal year to March, 1991.

The problem is the outlook for next year. The coincidence of the end of the cycle with a series of major external uncertainties - the possibility of war in the Gulf, the danger of the world trading system crumbling and the threats to the stability of the world financial system - provide a testing challenge to those who would forecast what will happen in an economy as sensitive to

world economic currents as that of Japan. But unless things go very wrong, it is difficult to see Japan suffering as much as many other countries. It is in surplus in both the public and private sectors, so the govern-ment can easily start the pump if circumstances warrant. And

past few months when the rise in oil prices has scarcely been felt in the economy.

At a time of potentially momentous upheavals, the consensus view is less valuable than it would be in normal

times. But, for what it is worth, most Japanese economists believe that the economy will grow at something will grow at something between 3.5 per cent and 4 per cent next year. In Europe or the US, that would be the best that could be hoped for at the peak of the cycle. In Japan, however, anything less than 3 per cent would represent a recession in the sense that the recession, in the sense that the contraction from the current profits and employment. The strains in the Japanese

financial system do give real cause for concern, but these too can be exaggerated, as Japanese bankers do not hesitate to point out to their foreign friends these days. Yes, banks capital ratios have slipped below 8 per cent, but very few have gone under 7 per cent and still fewer below 6 per cent. And even though liberalisation has proceeded apace, it is at least arguable, given the well known Japanese collective support instinct, that a Japanes bank with a 5 per cent capital ratio is still safer than a US one with an 8 or 9 per cent

Similarly, it is easy to exag-gerate the impact of the stock market slump. The figures involved are nothing short of staggering. From the peak at the end of last year to the bottom on October 1, Y800.000bn (\$2,145bn) was wiped off share values. A fall of that magnitude in the US or the UK would have severe repercussions but in Japan, where some 70 per cent of shares are closely held by financial institutions and industrial compa-nies, no real pain or squeeze is being felt by most investors. The value of their share portfo-lios has simply come back to where it was three years ago. Of course, if the market tumbles another 40 per cent....

External balances

For the past five years, virtually every presentation or trea-tise on the Japanese economy opened with a discussion of external balances. First, the question was when the country's trade and current account surpluses would stop growing. Later, the focus was on whether or not they would come down fast enough to pre-vent the US from taking some retaliatory action.

At a recent informal gathering at the Bank of Japan, dis-cussion proceeded for a good 20 minutes without the subject of external balances coming up at all. The reason, of course, is that they have been dropping rapidly and are no longer a source of daily bickering between Japan and its trading

Similarly, while the world's economic policy makers used to wring their hands over whether enough Japanese capital would flow into US treasuries to enable the Fed to avoid raising interest rates, it turns out there was nothing to

The US government funding requirement today is bigger than ever, but capital is now flowing into Japan rather than out of it, and US interest rates have actually declined. "The world is more resilient than we thought," a senior Bank of Japan official said drily.

Programme to the control of the cont

Aker turns down Euroc merger plan By Karen Fossii in Oslo

AKER. one of Norway's piggest industrial groups, has rejected a merger proposal from Euroc, the Swedish cement and building materials

group.
The deal would have created one of Scandinavia's biggest companies with an annual turnover of NKr25b (\$4.3bn) and a staff of 23,000.

Aker and Euroc have had close ties for several years. They own a joint cement venture, Scancem International. and in 1988 they jointly acquired Castle Cement, the

second largest UK cement pro-ducer, from RTZ of the UK for Aker's board, according to Aftenposten, Norway's leading daily newspaper, was approached by Euroc at the end of last month. This was followed by a rival merger proposal from Kvaerner. another big Norwegian com-pany, which sought to block Euroc. The latter wanted to dispose of Aker's offshore con-

tracting operation. Asea Brown Boveri (ABB) is understood to have been a key force behind Euroc's merger plan because of its interest in Aker's offshore contracting operations. ABB wants to merge this part of Aker with Electrisk Bureau (EB) its Nor-wegian offshore electrical contractor.

However, Aker's vulnerability to a takeover has been reduced due to a considerable improvement in its financial health this year.

After a series of earlier ill-fated investments, which cost it close to NKr3bn, it has significantly improved its financial position by divesting a large part of its investment portfolio. Because of this Mr Gerhard Helberg, Aker's board chairman, says the timing for lan Rodger | a merger is not ripe.



Newton found that great ideas do grow on trees.

Newton was lucky. He was also smart enough to realise the gravity of his discovery. Developing our 4M DRAM semiconductor, although difficult, was a lot more down to earth. But we immediately recognised a world of uses. That's why you'll find this brilliant chip, capable of holding 16 pages of newspaper text.

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medical and office equipment around the globe. An example of how we ar Toshiba are purting intelligent technol-

ogy to practical use. Our dedication to research and development is proof that we're willing to work hard to improve the quality of life around us. We're planting the seeds for a better

In Touch with Tomorrow TOSHIBA

TOSHIBA 4M DRAM

COMPANIES AND FINANCE

Citicorp securitises Thyssen steel contract

CITICORP Investment Bank has arranged a \$60m placement of floating rate notes, backed by the future payment flows from the sale of steel to Thyssen, the German industrial

group.

It is the first securitisation of the cash flows from a long term supply contract placed in Europe, but the market could grow swiftly, given the billions of dollars of trade contracts which could be repackaged in this way. In securitisation, various types of assets can be restructured to provide a cash and redemption payments of the asset-backed debt.

The issue allows Siderurgica del Turbio (Sidetur), the steelproducing subsidiary of leading Venezuelan industrial group Sivensa, to tap a fresh investor base. Other South American borrowers have tapped the Eurobond market, but in many cases the debt has been placed mainly with "flight-capital" investors – that is, high net worth individuals from the home market. This new structure could provide a fresh source of funds for similar borrowers.

For investors, the structure of the deal avoids any uncer-tainty over Venezuelan credit risk, since the debt is issued

through a special purpose vehicle called Tytan Securities, outside Venezuela.

The floating rate notes are secured on the future payments for steel deliveries. These payments will be made by Thyssen Sudamerica NV, the Latin American trading subsidiary of Thyssen, the German industrial group. Effectively, the Thyssen payments will pass through the vehicle to pay interest and redemption

The notes have an average life of three years and pay interest at 1% points above six-month Libor. Fees are undis-

TVS quiet on directors resignations

TVS Entertainment will be under pressure from the City to explain what is going on fol-lowing the resignation of two non-executive directors from the board of the ITV contractor

for the south of England, writes Andrew Bolger.
The company refused to give any reasons for the departure

of Baroness Pamela Sharp, who had been on the board for nine years, and Mr John Elton, a former director of Consolidated Goldfields and Hill Sam-

uel, the merchant bank.
Mr Elton was one the company's main links with the City, which had already identi-

fled TVS as the FTV contractor most likely to lose its franchise in next year's rebidding pro-

TVS shares have fallen sharply since it paid \$320m for MTM Entertainment in 1988, only to see the US production house plunge into losses last

CROSS BORDER M&A DEALS						
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT		
Volkswagen (Germany)	Skoda (Czechoslovakia)	Car making	N/a	£3bn+ investmnt planned		
Volkswagen (Germany)/ Ford (US)	Joint venture	Car making	N/a	To build space- wagon		
Barclays (UK)	Européenne de Banque (France)	Banking	£100-£200m est	Barclays' push Into Europe continues		
RWE (Germany)	Vista Chemical (US)	Chemicals	£305m	Buyout bought out		
MD Foods (Denmark)	Associated Fresh Foods (UK)	Food	£92m	Sale preferred to float		
ISS (Denmark)	Units of Electrolux (Sweden)	Contract cleaning	£70m	Big step for (SS		
Bộhler (Austria)	Uddesholm (Sweden)	Tool steel making	N/a	Merged company world's biggest		
B\$N (France)	Galbani (Italy)	Food	£41m	BSN now has 50%		
Alcatel (France)	Telettra (Italy)	Telecoms equipment	£118m	Alcatel now has 75%		
France Telecom/South- western Bell (US)/ Carlos Slim (Mexico)	Telmex (Mexico)	Telecoma	m9092	Group wins controlling stake		

An investment that baffled the Wall St pundits

Martin Dickson looks at Kirk Kerkorian's puzzling \$270m stake in Chrysler

N THE Hollywood hills, where the clash of outsized egos has raised the catty one liner to an art form, there is a saying that you should never, never buy anything from Mr Kirk Kerkorian.

For Mr Kerkorian has a reputation of being one of America's most skilled traders in corporate bits and pieces — a man who has amassed a \$1bn personal fortune through a lifetime of West Coast wheeling and

The son of an immigrant Armenian fruit-seller, he once stranded himself at Madrid airport by selling his private jet on the tarmac to Mr Adnan Khashoggi, a Middle Eastern middle

And just last month, at the age of 73, he capped his career by selling MGM/UA, the Holly-wood film and television studios, in a \$1.3bn deal to Pathe

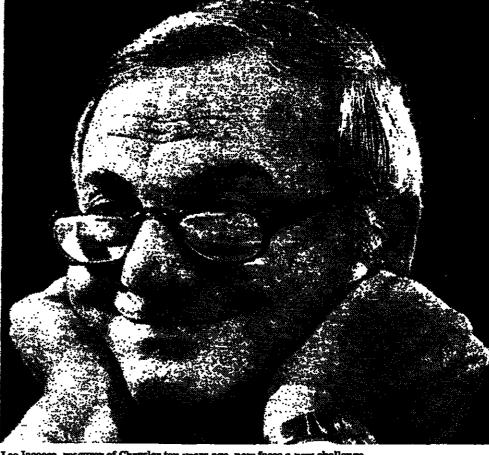
But Mr Kerkorian's latest move, revealed last Friday, had Wall Street completely baffled: he spent just over \$270m buy-ing up 9.8 per cent of the com-mon stock of Chrysler, the third largest US automobile manufacturer and a company with a large question mark over its long-term health. The deal made him the com-

The deal made him the com-pany's biggest single share-holder and a wary Chrysler quickly responded by strength-ening its "poison pill" defences gainst a takeover. Mr Kerkorian's investment is

ouzzling in two respects. First, it seems a curious departure from his normal line of perations, which have tended o be at the more glitzy end of he services sector

Admittedly, his first busi-ess, which he set up in the Depression, involved buying nd selling used cars, but he uickly turned to trading airraft - one of his passions is lying – and eventually built p his own independent carrier efore moving on to entertainnent, hotels and gambling, brough MGM, in the late 1960s. The second reason for Wall Street's surprise is that Chrys-er's problems would seem to ake it a most unpromising andidate for large speculative ains – at least in the near

So far, Mr Kerkorian has iven next to nothing away. In a statement on Friday he said his stake was for "investment." Chrysler, for its part, revealed



Lee Iacocca, rescurer of Chrysler ten years ago, now faces a new challenge

that Mr Lee Iacocca, its feisty chairman and the man who rescued the company from near bankruptcy a decade ago, had sought and obtained a meeting with Mr Kerkorian on Decem-

And at this gathering in New York City the consummate Californian trader was reported [by Chrysler] to have told the consummate Detriot marketing man that he considered himsel a passive investor, supported management and thought the company's shares were under-valued.

tion for Mr Kerkorian's behav-iour is that he thinks a takeover bid for Chrysler may be in the offing, or that his action will somehow put it into play, or that he can sell the parcel on at a higher price to another interested party. But none of these outcomes seem all that bile manufacturers.

Chrysler, it is true, has just been involved in year-long take-over talks with Fiat of Italy, and it is possible that Mr Kerkorian built up a stake of less than 5 per cent (the level at which purchases must be disclosed) some months ago in the hope that this deal would go ahead.

But the Fiat marriage never made it to the altar, for reasons which help explain why, on fundamental investment grounds, a stake in Chrysler seems unlikely to prove very exiting over the next few years. In breaking off their secret

engagement in early November, both companies cited the deteriorating world economic outlook look - which is slowing car sales in Europe and creating deep gloom among US automo-

The Americans are bracing themselves for a sharp drop in demand as the economy slips into recession — and this at a time when a build-up of Japanese plants in the US has created an excess of manufacturing supply over consumer

The result: flerce price cut-ting, particularly by Detriot's Big Three manufacturers, who have been battling to preserve market share against the extremely popular Japanese models.

All of the Big Three - General Motors, Chrysler and Ford - expect to go into the red in the final quarter of this year and the outlook for 1991 is little

Chrysler looks particularly

vulnerable because it is much smaller than the other two,

does not have their large and profitable European operations, and has suffered a particularly sharp drop in domestic car mar-ket share over the past two years, taking it down from near 11.5 per cent to about 9 per

The loss of share is due partly to a withdrawal from the less profitable small car mar-ket, but also, say analysts, because the company's model range is old and unexciting. A new range - which could transform the outlook - is not due until late 1992 at the earliest and involves heavy capital

expenditure.

And if all this were not sufficient to give a bidder pause for thought, the company is stuck with particularly large pension and health liabilities. Still, the company is not in the desperate financial straits of a decade ago - in part because it has built up a \$4m cash pool, its highest liquidity level ever, to see it through the

Many analysis reckon that over the long term Chrysler will have to strengthen greatly its ties with another manufacturer or merge completely, but it is hard to see that happening in the present climate.

The company does have an 11 per cent stake in Mitsubishi and joint ventures with the Japanese company which are likely to be strengthened following the Fiat break off. But a full Japanese bid seems highly unlikely, not least because of the political furore it would

So any potential for large capital gains from an invest-ment in Chrysler looks quite a way off. The shares are cer tainly cheap, trading at around \$12 against a book value of around \$33. But it says a lot about the risks and liabilities facing one of the largest manufacturing companies in North America that someone can buy nearly 10 per cent of it for a

Chrysler's large dividend - which does not look too insecure and currently yields nearly 10 per cent – means that Mr Kerkorian will have little or no cost in carrying his stake.

But the septuagenarian investor may need a great deal of patience for more exciting knows something Wall Street



PowerGen plc

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Oversea-Chinese Banking Corporation Limited

A STRONG FINANCIAL PERFORMANCE

Extract from the Chairman's interim statement.

This important first half year has been a successful one for Welsh Water. A sound income base and effective control of operating costs have been combined to produce a strong financial performance.

Investment is now being undertaken at approximately double the rate of two years ago.

Weish Water has adapted well to life as a publicly quoted company. The management team is running the core business in a manner which brings improvements to customer service, water quality standards, the environment and for shareholders."



John Elfed Jones CBE DL, Chairman.

Unaudited Interim Results for the Half Year to 30th September 1990

Turnover up 13 per cent to £146 million.

1989 pro forma to £72.7 million. Interim dividend of 6.5 pence per share (net), an increase on the

notional 1989 interim dividend of

Profit before tax up 20 per cent on

Satisfactory progress made on the capital investment programme.

16.3 per cent

Continuing pursuit of group strategy of developing non-core business.

Copies of this statement are being sent to shareholders. Copies are also available from the Company Secretary, Welsh Water PLC, Plas y Ffynnon, Cambrian Way, Brecon, Powys LD3 7HP.



WELSH WATER PLC



pundits

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The American Sections

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Moulinex ready does not have their large at profitable European operation and has suffered a particular sharp drop in domestic carnet state share over the past to years, taking it down from an 11.5 per cent to about 9 per cent. to proceed with Krups takeover

MOULINEX, the French maker of kitchen equipment, is to go ahead with the takeover of Krups, the German household appliance group, following the resolution of a boardroom row over whether to proceed.

The argument was settled when Mr Jean Mantelet, Mouli-nex's 90-year-old founder who has been in semi-retirement for the past two years, conferred his post as group president to Mr Roland Darneau, who was already managing director and favoured the deal. Mr Gilbert Torelli, formerly commercial director, now becomes managing director. The move puts an end to the

opposition mounted by Mr Michel Vannoorenberghe, Mou-linex's former finance director and holder of a significant minority share stake, who had tried to block the deal on the grounds that the group was too heavily in debt to afford it.

Moulinex, which announced it was negotiating with Krups last month, said details of the takeover would be announced shortly, once the deal

ioint venture By John Ellioft had been signed. SOCIETE Générale of France

The French company's debts have risen to around FFr500m (\$51.2m) due to its £18.2m (\$34.6m) acquisition last year of Swan Housewares, a British producer of kettles and toasters, and Germi, an Italian maker of kitchen blenders. Last March, Mr Mantelet sold control of Moulinex to its management and staff to pave the way for his succession. The French group recorded a FFr5.1bn turnover last year, while Krups' sales were DM516m (\$349m).

Moulinex argues that it needs a production base in Germany, already its biggest foreign market, to help sell into eastern Europe, Krups' products are broadly comple-mentary to those of Moulinex. according to company officials.
The German company is best known for its coffee machines and hair dryers, while Moulinex specialises in microwave ovens and kitchen appliances. Krups is also active in the US, while Moulinez is not well

Sharp profit falls at two HK companies

By John Elliott in Hong Kong

TWO BIG Hong Kong companies have reported steep falls in half-year profits. The declines reflect growing pressure from world economic trends and Hong Kong's problems of high labour costs and falling consumer confidence. failing consumer confidence. Winsor Industrial, one of the

colony's largest textile and garment manufacturers, announced a 28.3 per cent decline to HK\$117.5m (US\$15.1m) in profits attributable to shareholders for the half-year ended September 30. This included a 37.7 per cent plunge to HK\$93.05m in the

operating profits of its core tex-tile and clothing activities.

Dickson Concepts, a leading wholesaler and retailer of big-name designer label luxury goods, announced a 19.5 per cent drop in net profits to HK\$111.26m for the same period. This ended 10 years of rocketing growth for the com-pany, which is 51 per cent owned by its 34-year-old

founder, Mr Dickson Poon.
Mr T. K. Ann, Winsor chairman, partly blamed the drop in profits on a "rampant rise in production costs". This meant that "the merits of Hong Kong

as a manufacturing centre are ebbing day by day". Winsor manufactures most of its textile and garment products in Hong Kong and the nearby Portuguese enclave of Macau, but has recently moved some of its spinning and weaving operations to Malaysia to cut costs.

Its profits have been falling since the first half of 1987, when the net figure was Its half-year turnover was 15.26 per cent down, from HK\$1.3bn to HK\$1.1bn, It is

recommending an interim dividend of 20 cents, the same as Dickson reported turnover up from HK\$982.32m in the first half of last year to

HK\$1.06bn.

EUROPEAN FINANCE & INVESTMENT OVERVIEW

James 15 199L

It will be of particular interest to the 39% of European Institutional investors who are regular FT readers. If

FT SURVEYS

The FT proposes to publish this survey on James 15 1991.

week, into a financial centre. **James Capel to**

cut bonds staff

JAMES Capel, the stockbroking unit of the Hong-kong and Shanghai Banking Corporation, is to stop trading bonds in France for institu-tional electric research tional clients in order to focus on the French equity and options markets, Reuter reports from Paris.

James Capel said the move would cut about 40 jobs but added "it will affect a number of people well below that".

"Some will leave through early retirement and some will be offered transfers elsewhere within the group," it said. A series of French brokers have laid off staff recently due to a trading slowdown.

Casino to sell petrol outlets

By George Graham in Paris

COMPANIES AND FINANCE

Sociéte

Générale in

has linked with two Chinese institutions to form a financial

services joint venture in Shanghai. Called Associated

Finance Shanghai, it is expec-

ted to start operations by the middle of next year with regis-tered capital of US\$20m.

This is the first such joint venture by a western bank outside China's special eco-nomic zones since the late

1940s, when foreign banks and other companies left the coun-try after the Communist take-

Another joint venture, Shanghai International

Finance Company, is also being finalised. It involves Asian institutions which each have 25 per cent stakes. They are the Sanwa Bank of Japan,

the Bank of East Asia from Hong Kong, the Bank of China and China's Bank of Commu-

Taiwan in August. If a replace-ment is found, Société Génér-ale will hand over half its

The two Chinese partners,

each with 25 per cent, are the Shanghai branch of the Con-

struction Bank of China and

the Shanghai Investment and

Société Générale said yester-

day it would develop merchant

ects in China, including

Shanghai's new Pudong devel-

Support from the Chinese

government is further proof of its open door policy. It is also significant because it reflects

Peking's interest in re-develop-ing Shanghai, which is open-

ing a stock exchange next

Trust Corporation.

opment area.

Shanghai

CASINO: the French supermarkets group, is selling its petrol stations to Shell for FFr680m (\$122m), the UK oil major, and Agip, the Italian state-controlled oil group.

Shell will take control of 90 petrol stations attached to Casino supermarkets and hypermarkets in southern France, while Agip will take over 82 stations, mostly in east-

The deal marks a big shift in the French petrol market, where the big retailing chains have won a third of the market away from traditional oil company petrol stations by aggressive price discounting.

Casino, which will continue to manage the petrol pumps for Shell and Agip, said it did not make money on the business and had concluded that the market was going to shift to more sophisticated

"We are convinced that we are moving in this sector towards higher added value products, and no-one is better placed than the international oil companies to provide these," said Mr Georges Plas-sat, head of Casino's retailing activities.

France currently consumes only 40 per cent lead-free petrol, while the international average is 75 per cent. Lead-free petrols have only recently been launched on the market and are expected to develop dramatically in the next few

Mr Henri Pradier, chairman of Shell France, said his company was investing around FFr1bn a year in refining capacity for these more sophis-ticated products, and it was

Dutch newspaper for sale

By Ronald van de Krol in Amsterdam

THE Netherlands' only financial dally newspaper, Het Financieele Dagblad, is to be sold by its owner, Mr Hendrik

Société Générale is taking a 50 per cent stake in – and will manage – Associated Finance. This is because the other for-eign partner, the Bank of Tokyo, was rejected by Peking after it opened a branch in Tokyon in Angust If a replace. In a story on the front page of its Saturday edition, the newspaper said Mr Sijthoff wanted to dispose of the publi-cation in a way that would ensure its continued editorial independence.

The newspaper has a circula-tion of 40,000 and a staff of 140. It is estimated to be worth at least Fl 100m (\$60.2m), depend-ing on the conditions attached to its sale.

On Mr Sijthoff's instructions, Pierson, Heldring & Pierson, the Amsterdam based merchant bank, has begun to nego-tiate with the paper's staff to banking activities aimed at providing financial packages for industrial and other pro-

clear the way for talks with potential buyers. Under the paper's complicated ownership structure, the staff has a virtual veto on the transfer of shares from Mr Sijthoff to a

Efforts to sell will be compli-cated by an unsettled legal suit and a multi-million guilder claim brought against the paper by the agency which for-merly handled its advertising acquisition

As the only leading Dutch newspaper not yet owned by a big publishing group, Het Fin-ancieele Dagblad is expected to attract interest from publish-ing companies and investment groups at home and abroad. A buy-out by management and staff is also possible.

Disney drops Muppets deal

By Patrick Harverson in New York

WALT Disney has abandoned plans to acquire Henson Asso-ciates, the company behind the popular Muppets characters. The talks ended late last

veek with the two sides unable to agree terms on a deal that been worth between \$100m and \$150m. Disney and Henson had been negotiating the acquisition for almost eighteen

The death in May of Mr Jim Heuson, founder of Henson Associates and the instigator of the deal, sparked disagree-ments between Disney and Mr Henson's five children, who took over the business from their father. It is believed Disney argued

Henson Associates was worth less after its founder's death, because he had been the creative force behind all its successful characters.Mr Henson's children were thought to have been demanding a higher price. The deal, announced in August 1989, envisaged Disney acquiring publishing and licensing rights to all Muppets characters, except those created for the "Sesame Street" television programme

Brazil may close state ship line

PRESIDENT Fernando Collor de Mello of Brazil is considering the closure of Lloyd Brasileiro, the ailing state-owned maritime transportation com-

pany, writes Victoria Griffith in Sao Paulo.

The move reinforces the perception that the new administration is not prepared to lend any financial assistance to Bra-zil's troubled state enterprises.

One of the country's most respected newspapers, Jornal do Brasil, reported that the president had already made the decision to shut down the

The deal will allow Casino to reduce its debt, at FFr4.2bn since its acquisition earlier this year of the La Ruche Meridionale supermarket

ompany. Mr Plassat said the group's sales in the first 11 months of this year were FFr41bn, up 31 per cent from a year ago

new president

DENISON Mines, the struggling Toronto-based mining and energy group, has named one of Canada's best-known mining personalities, Mr Bill James, as its president and chief executive, writes Bernard Simon in Toronto. Mr James, 61, who is famous

nickel producer was taken over by Noranda and the Swedish group, Trelleborg, last year. Mrs Helen Roman-Barber, daughter of the company's founder, Mr Stephen Roman, was previously chief executive. Mrs Roman-Barber, whose family-controlled company has a 38 per cent stake in Denison, remains chairman. Denison's

necessary to assure outlets for this new production. The deal will propel Shell into third place in the French petrol distribution market, with a share of over 9 per cent, behind the two French oll majors Elf and Total but just ahead of the two leading retailing chains, Intermarché and

Agip, which began to penetrate the French market much later, will reach a market share of nearly 2 per cent after the

Denison names

for his directness, was at the helm of Falconbridge until the

former president, Mr Jake Fowler, is retiring.



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Notice to Holders of Warrants Issued in 1986 and 1987 1986 WARRANTS

1986 WARRANTS

Holders of the 2,652,000 twinned warrants (the "1986 Warrants") for abserts in Eurotempel P.L.C. ["EPLC"] and in Eurotempel S.A. ["ESA"] [boundle in the form of Units] constituted, in the case of EPLC, by an instrument dated 1 September 1986 (as amended by a Supplemental instrument dated 4 September 1990) and, in the case of ESA, by a Board resolution dated 13 August 1986 (as amended by a Board resolution dated 13 August 1986 (as amended by a Board resolution dated 13 August 1986 (as amended by a Board resolution dated 13 August 1986 (as amended by a warrantholders given at a general meeting held on 1 September 1990) are informed that, as the result of the offers by EPLC and ESA to their respective shareholders, by way of rights, of an aggregate of 1984, 435,008 (see Units to be subscribed for on the basis of 3 New Units for every 5 estating Units held at a price per New Unit of FRF 28.25 or 285 por FRF 14.125 plus 142.35, the tumber of abserted in EPC and shares in ESA, twinned as Units, which a holder of a 1986 Warrant may subscribe on servicies of such 1986 Warrant has, subject to the insue of such New Units, been adjusted.

As a result of the adjustment, each 1986 Warrant entities the holder there of to subscribe for 10.78 Units at a price of \$3.72 and FRF 100. Subscription rights under the 1986 Warrants are only exercised in respect of whole monthly the first analysis.

As a result of the supremise, in connection with the rights have, of the 1986.

Units.
As result of the suspension, in connection with the rights issue, of the right to exercise the 1986 Warrants from and including 26 October 1990 until 15 December 1990 inclusive, the 1986 Warrants will again become exercisable on and from 26 December 1990. The above adjustment will apply to 1996 Warrants exercised on and after that date.

1987 WARRANTS

Exercised on and after that date.

1987 WARRANTS

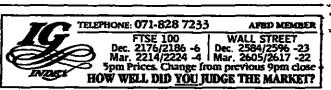
Holders of the 220,000,000 refuned warrants [the "1987 Warrants"] for shares in EP-LC and ESA lisseable in the form of thits] constituted, in the case of EP-LC, by a Share Warrant instrument dated 13 Movember 1887 sate informed that, as the result of the offers by EP-LC and ESA to their shareholders, by way of rights, of an aggregate of 199.433,068 New Units to be subscribed for on the basis of 3 New Units for every be existing funits held at a price per New Units for every be existing funits held at a price per New Units of EP-LC and shares in ESA, twinsed as Units, which a holder of a 1987 Warrant may subscribe on exercise of such 1987 Warrant has, subject to the laster of such New Units, been adjusted. Certificates as to the required adjustment have been obtained from Morgan Grenfell & Co. Limited and Hanque indepate pursuant to the provisions of the instrument and the Board resolution referred to show. Copies of the certificates are available for inspection by holders of the 1987 Warrants at the registered offices of EP-LC and ESA specified above.

As a result of the adjustment, ten 1887 Warrants entitle the holder thereof to subscribe for L1 Units at a price of £2.30 and FBF 23.00 [1987 Warrants are only exerciseable in tens and in integral saudities of ien and only it and to the extent that sufficient 1987 Warrants are exercised so as 10 entitle the holder to pe allocted one Unit or an integral multiple of one Unit.

As a result of the suspension, in connection with the rights issue, of the right to exercise the 1987 Warrants from and increating 18 November 1990, on which that they would otherwise have become exercisable, until 25 December 1990 inclusive, the 1987 Warrants will become exercisable on and for the American and a large that date.

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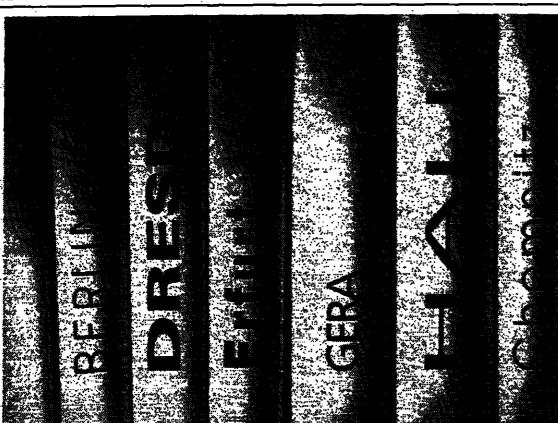
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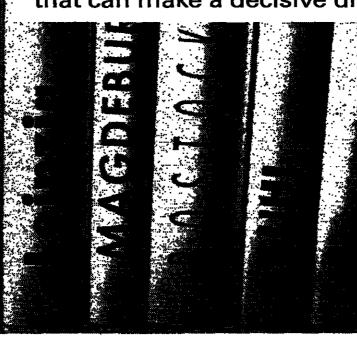
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INTERNATIONAL CAPITAL MARKETS

Interest rate doubts hurt short end

THE SHARP rise in prices in the past month on the gilt-edged securities market showed signs of coming to an

The market ran out of steam uncertain about the likely pattern of interest rate cuts

There were muted gains last week for long-duration bonds, where yields declined marginally, indicating a price

At the short end of the yield curve, however, prices declined as the market recognised that Britain's high 14 per cent base rate may against the expectations of two weeks ago - stay for a

On Friday night, the benchmark 9 per cent Treasury bond maturing in 2008 was quoted at 90%, only slightly higher than the previous week. Much of the uncertainty in the gilt market was due to worries about the likely pattern of interest-rate cuts

next year. A mass of economic

data has appeared in the past few days to support the view that Britain is in danger of a deep recession. The indicators - including a

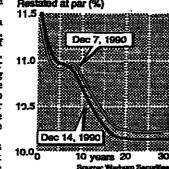
large jump in unemployment, sharply declining lack of confidence in the retail sector, and a 3 per cent year-on-year decline in manufacturing output – have underlined the mage that could be done to industrial prospects should Mr Norman Lamont, chancellor, fail to ease borrowing conditions soon.

But Mr Lamont is constrained by the weak osition of sterling in the European exchange rate mechanism. Any early cut in rates could make sterling less attractive to overseas investors, pushing the pound perilously close to its effective ERM floor.

Mr Lamont must therefore feel a bit like a rabbit caught out on a motorway. Should he sit tight, or make a dash for safety, possibly running into more danger?

Opinion in financial markets

UK gilts yields Restated at par (%)



is increasingly that Mr Lamont will choose the former option. By sitting out the next few weeks, he can demonstrate his willingness to take a long view in relation to the British economy, allowing interest rates to fall only at a gradual

One piece of good news for the government on Friday was that the annual rate of retail-price inflation fell below

10 per cent in the first monthly drop for three years. The decline of 1.2 per cent, from 10.9 per cent in October to 9.7 per cent in November, was the

per cent in November, was the biggest since April 1986.
One part of Mr Lamont's plan may be that, by keeping interest rates high over the next few months, further reductions in inflation will come relatively quickly – in which case the scope for a more significant easing in borrowing conditions later in the year would be increased.

Against this argument is that at some point soon – assuming that sterling fails to climb markedly in the next month – Mr Lamont may be forced to chance his arm with an interest rate cut of perhaps half a percentage point and gamble that the foreign exchange markets will not mark sterling down as a result. For the time being, the gilt market cannot make up its mind about the strength of Mr

Peter Marsh

Lamont's resolve.

IRISH BONDS

Low inflation fosters continental links

INFLATION in Ireland is running at an annual rate of 2.7 per cent - the lowest rate in Europe - according to retail price figures for November,

released last week The figure is in stark contrast to the 9.7 per cent rate in the UK and underlines the divergence between the two countries' economic

performance. The difference between the two economies has broken the historic ties between the performance of the Irish government bond market and

New relationships with continental European markets are now more important and international investors are

increasingly attracted to the small Irish gilts sector. In addition to the rosy inflation outlook, the Irish economy is running a balance of payments surplus equivalent to 2 per cent of gross national product and the government surplus.

By other measures, the economy is less healthy. Bond investors, however, like to see unemployment running at over 15 per cent; there is little chance of economic

According to market analysts, the key relationship is now between the Irish and French government bond markets

Fund managers track the relative performance of the French and Irish markets and switch funds between the two.

under considerable pressure for the first half of the year, as French government paper performed better than any At the 10-year maturity, the benchmark for most European government bond markets, the

yield spread between Irish gilts and French treasuries widened to 120 basis points by the

basis points over the French bonds. This turn-around reflects both the massive correction that took place in French bonds in the wake of the Gulf crisis and the recent

This placed the market Iraq's invasion of Kuwait sent Irish gilt yields spiralling up. At the long end of the curve, the yield on the benchmark 8½ per cent gilt maturing 2010 stood at 8.99 aftermath of the invasion.

However, Irish gilts now offer a yield pick-up of just 20

strength of Irish gilts.

Like most other European government bond markets, the Irish gilts market has suffered something of a roller-coaster ride over the past 12 months.

Moreover, the relatively small size of the market – just 1212.5bn in total – has accentuated both rises and

per cent before the Gulf crisis but widened out to a high of 10.10 per cent in the immediate Throughout the autumn, prices have staged a strong

This announcement appears as a matter of record only.

The benchmark long-dated gilt now stands at a yield of

US\$80,000,000 and £15,000,000

Term Loan and Revolving Credit Facilities

9.21 per cent. The yield curve remains sharply inverted, with six-year government paper yielding 10.5 per cent. Supply of new Irish gilts is liable to be limited during 1991. This year the government has been very active at the shorter maturities, accumulating 1£750m in excess of its funding

requirement. The total government funding requirement for next year is likely to be only around I£500m, so there is little prospect of fresh

The fundamental economic outlook remains encouraging for Irish gilts. Under government incomes policy, wage inflation has been running at around 2.5 per cent over the last three years.
The agreements are now

being renegotiated, but a favourable outcome could see the Irish gilts market entering 1991 in a positive mood.

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US MONEY AND CREDIT

Treasuries rally runs out of steam

ALAN Greenspan, chairman of the Federal Reserve, will be centre stage this week as fixed income investors look to Washington to see if the Fed's Open Market Committee (FOMC) judges the deepening US recession sufficiently worrying to ease US

The bond market feels the lowering 10 days ago of the Fed funds rate was a step in the right direction, but not a big enough one. Economists, meanwhile, are now forecasting a fourth-quarter slump in GNP of as much as 4 per cent, having digested Friday's news that US industrial production tumbled by 1.7 per cent in November – the sharpest drop since the 1982 recession.

But Mr Greenspan is cau tious, and is well-known for his reluctance to ease monetary policy unless he is satisfied that the demon of inflation has been exercised from the US economy. Hence the curious economy, nence the curious current situation – in which there is persuasive evidence almost every day that Mr Greenspan's "meaningful downturn" is becoming a deep recession but there is continu-ing uncertainty as to whether the Fed will move to further ease rates because last Friday's producer price index (PPI) may have rekindled inflation fears. The PPI figures for Novem-

ber showed a 0.5 per cent rise in the "core" index, which excludes food and energy. And even though the overall PPI data represented a slowing of inflation after three months of

US MONEY MARKET RATES (%) 7.06 7.96 7.07 7.65 7,70 7.50 US BOND PRICES AND YIELDS (%) In the week ended December 3, M1 fell by \$8.6bn to \$819.0bn.

oil price-driven increases, the rate was still above expecta-

Many economists believe the PPI numbers to be lagging behind the US business cycle, but the market, clearly nervous abut Mr Greenspan's intentions, lost heart toward the end of last week. The two-month rally in Treasury paper ran out of steam, with the benchmark 30-year 8.75 per

by a solid **a** on Friday. The strong recession-induced rally in Treasury paper – which has seen a 10 per cent jump in the price of the benchmark long bond (and a drop of 89 basis points in the yield) in eight weeks - has thus ended for the time being. Added to the inflation con-

cern, whether it is spurious or not, are other factors that have mpened the market's enthusiasm. One was good old-fash-ioned profit-taking and the

other was renewed concern about the prospect of a Gulf war (and, with it, the prospect of a new inflationary hike from crude prices) as president Bush toughened his attitude toward

Saddam Hussain. The view at Salomon Brothers was, nonetheless, that investor warlness represented a consolidation phase rather than a decisive end to the bull market. Fundamentals still argue for lower bond yields and a cut in the discount rate from its present level of 7 per

The problem for market players, who are in any case busy with Christmas parties and the closing of books, is that Mr Greenspan has been more inscrutable than ever in

recent days. For many on Wall Street, the Fed's behaviour has been downright exasperating. Ten days ago the Fed added reserves to signal a nudging of

the Fund's rate down to 7.25 per cent. The market tried to send the signal back to Washington as the rate was pushed even lower. But last Tuesday the Fed executed overnight matched sales to hold the rate up, a clear response to the market. Then, last Wednesday the Fed turned around and added

reserves, pushing the Fed fund's rate down again. Mr Robert Brusca, chief economist at Nikko Securities, spoke for many in the market on Friday when he pooh-pooed the Fed's inflation fears by not-

ing that, in times of recession, inflationary pressures tend to dissipate rather than rise.

Mr Brusca first complained about the "lack of leadership" and then lobbed a verbal hand grenade at Mr Greenspan. "The rederal Reserve," he opined, "appears to be totally confused in its policies or engaged in the most amazing episode of fine tuning since the Fed chairman-

ship of G. William Miller." Mr Greenspan's determina tion to assure himself about the inflation trend before easing rates further may be sincere, but Mr Brusca is right. The Fed's fine tuning in recent days implies more uncertainty than consistency in US monetary policy.

The net result of all this may be something of a policy stalemate at the Fed, with only a 50 per cent chance that the Fed will ease again before Christmas. It could be a tense week for the provided to for the markets.

Alan Friedman

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INTERNATIONAL BONDS

INTERNATIONAL CAPITAL MARKETS

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for the markets Alan Friedma

BAY DECEMBER 17 1990

international market this year, shrugging off its image as a quiet haven for French retail "Foreign investors buy the

most liquid part of the market - government bonds - first. Now they are familiar with the interest rate and currency implications of the French market, they have started to the feet's inflation fears by at ing that, in times of recession inflationary pressures and is the farmers first complaint which then tobiast a verbal and then tobiast a verbal and commands at Mr Greenspan To buy spread (paper which yields a margin above government bonds)," one French banker observed.

The development of the mar-

the development of the market has been boosted by the surge in new issue volume, the strong performance of the French government bond market and growing international confidence in the French currency. In addition, analysts and more constants of the strong performance in the present currency. said a more aggressive stance on marketing and trading by the French banks had paid off. The volume of new issues so far this year stands at just under FFr50bn, up from FFr29bn in 1989. The growth in overall volume has been matched by an increase in average issue size and a trend of launching additional tranches which can be traded interchangeably with older issues. There are now three

US DOLLARS

Nichiei Co.∳♠

Nippon Syn.Chemicaité Nippon Soda Co.(e)+◆

Nippon Koshua Steel(i)4◆ IADS◆

Tokyu Dept.Store Co.44
SwedBank4
Skidek Int.(m)**4
Mitsubishi Motors*4

Dowa Mining Co.+◆
MBL Fin.(Curacao)(q)◆
Tytan Sacs.(k)★★↑◆
Freedom Fin.il BV(r)↑◆

CANADIAN DOLLARS

Royal Bk of Canada♦ JVC◆

AUSTRALIAN DOLLARS

Toyota Finance (Aus.)

D-MARKS

THE FRENCH franc sector of issues of FFr3bn or more. the Eurobond market has evolved into an actively traded market] has been widely spread for several years. The problem we had [in the Euro-French franc sector] was not lack of demand but lack of issuers," said Mr Christian d'Allest, syndicate manager of Société Générale. A watershed for the market

was last month's FFr3bn deal was last month's FFr3bn deal for the kingdom of Spain, the largest single amount ever launched. The psychological impact of the deal was all the stronger because Spain was known to have been looking at the Ecu bond market. Spain's choice of the French market and the success of its deal, attracted institutional investors who previously exchewed attracted institutional inves-tors who previously eschewed the sector. The eight-year issue went secondary last week, and will be among the handful of benchmark issues which can be traded in large size. So the boom in the primary

market is starting to feed through into the secondary market. International institutions will only buy bonds which can be sold quickly and in large tickets. The benchmark Issues are regularly traded in FFT50m blocks. traded in FF750m blocks. Banks charge a spread between bid and offer (buy and sell) prices of 30 basis points on



these benchmark issues, a margin which has narrowed from about 50 basis points a year ago. In the primary market, a handful of issues have been launched using the fixed price re-offer technique, which only works if distribution is institu-

tional Like the Ecu sector, a two-tier market - for institutional and retail issues - has developed. Underpinning the growth in international demand are strong economic fundamentals. The French government's "franc fort" policy has helped the franc hold up well against

the dollar and the yen this

Yamaichi Int.

Yamaichi int. Niikko Secs.

Nomura Int. Yamaichi Int. Mitsul Taiyo Kobe

J.P.Morgan Secs.

Nikko Secs. Nikko Secs. Mitsubishi Fin.Int.

Citicorp Inv.Bk

101.15 RBC Dominion Secs.

101.82 Hambros Bk

NEW INTERNATIONAL BOND ISSUES

4.500 4.875

4.500 4.500 5.802 5.000

4.500

Borrowers

SWISS FRANCS

FRENCH FRANCS

IMI Bank Int.(o) LUXEMBOURG FRANCS

Codama Higs.★★◆
Cregem Finance★★◆
Credit Agricole★★◆

YEN

IADB Gunze Sangyo Inc.[i]***
Kawasaki Electric(n)***
Oliver Corp***
City of Turkur**

CEPME(h)♦ Credit Local de France(p)♦

Abbey Nat.Treas.Serv.(a) ♦
Nagase Fin.Europe BV ♦
Flash Series O(c)† ♦
Mitsui Real Est. Dev.(i)† ♦
Bank of Canada ♦

year. French and German inflayear French and German inte-tion are expected to converge next year. Even though the spread of 120 basis points between French and German markets is historically quite tight, this economic outlook suggests it could narrow fur-ther. The yield differential between Ecu and French franc bonds issued by the French treasury has been eroded from 40 basis points in July, according to Ms Esther Baroudy, a

Crédit Lyonnais analyst.

These are the fundamental attract more international borconcerns of international investors, who buy French yielding alternative to governrequirement for French francs,

became active in the governprovide attractive opportuniment bond market a couple of ties for borrowers to swap pro-ceeds raised in the French maryears ago, largely as a result of the efforts of the French authorities to boost interna-tional participation. The will to ket into other currencies.

The market for interest rate swaps - from fixed-rate to create a broad international floating-rate French francs is quite active, having grown to service France's sizeable market was also visible in the treasury's recent decision to domestic corporate bond mar-ket. But the market has never allow non-French banks to lead manage Eurobond issues. J.P.
Morgan scooped this first last
week, with a FFr500m deal for
Compagnie Bancaire, but others are expected to follow.
Nevertheless, the way forbeen able to offer issuers more than a small margin below the Paris Interbank Offered Rate

(Pibor), the floating-rate mea-sure used for most swaps.

The currency swap market has rarely provided swap win-dows for new issues. Some analysts say the

increasing correlation between European currencies in the exchange rate mechanism will encourage more borrowers to keep funds in French francs.

For borrowers in European countries with higher interest rates, the risk is minimal and

the benefits attractive. Others point to the deterioration of

arbitrage opportunities in other bond markets. If other markets get much worse, ours

will start to be relatively com-petitive, but there's not much

hope of movement in the other direction," one banker said.

Credit Suisse Swiss Volksbank Banca Del Gottardo

Credit Lyonnais

1015 BTI 1017 Daiwa Europe 100.10 Sanwa Int. 101.37 Yamalchi Int.

Tracy Corrigan

ward for the French franc Eurobond market will not be smooth. Again, the problem is likely to be a lack of issuers. The supply of state-sector borrowers may abate next year, if plans afoot at the treasury to reduce the number of state guarantees go ahead.

Even if there is no significant decline in issues by the likes of Electricité de France and Société Nationale des Che mins de Fer Français, which would not be severly hampered by the loss of the state guaran-tee, the market still needs to

rowers, especially sovereigns and supranationals However, many of these borrowers do not have a natural

Av. life

SYNDICATED LOANS

Oil groups exploit firm price of crude

OIL companies are taking advantage of the strength in the price of oil to secure linan-cing needs that will take them through the next few years. Many US oil groups raised equity in the international market and several energy companies are talking to banks about an approach to the syn-

dicated loans market.
In spite of a slightly ambiva-lent attitude by banks to the two most recent oil deals -Citicorp's £700m multi-option facility for the UK subsidiaries of France's Elf, and NatWest's £450m two-tranche deal for Total Oil Marine, a unit of the French petrochemicals group the energy concerns are looking to look in finance early

in the New Year.

At least three leading oil companies are looking to secure funds by approaching the market through UK subsidiaries with activities in the North Sea. These will refinance existing operations in the industry and provide a tax advantage for a unit to approach the market directly. rather than securing funds

through its parent.
But the deals are unlikely to carry the guarantee of the parent and will be judged on the basis of the subsidiary's cashflow only. For this reason, banks may be looking for slightly higher returns than they would for a deal which carries the weight of the par-

Added to this, the deals under consideration will run for 10 years in a market with a current appetite for short-term risk and it looks as though the pricing achieved by Total will be taken as a bottom limit. Other oil companies tapping the market will have to pay as much - if not more - than the 42.5 basis points over the London Interbank Offered Rate achieved by Total, which rose to 60 points over the life of the

This is not cheap, but the energy companies may want to get into the market before the resolution of the Gulf crisis and resulting plunge in oil prices, which will cast a shadow over their credit outlook.

Citicorp relied on the strength of Elf's credit to bring a finely priced deal a couple of months ago, but this was quickly repriced and ended up being oversubscribed to the tune of £150m, showing there is an appetite for oil paper at the right price. Nevertheless, 17.5 basis points rising to 22.5 payment for an interest margin is

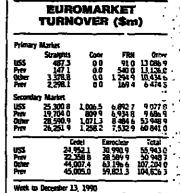
still low in today's climate. The size of the deals under consideration vary widely-from £500m to £300m, but com-panies are still only in exploratory discussions with banks and no announcements are expected before January.

Pricing in the loans market continues to rise, albeit more slowly than in recent weeks and some deals continue to face difficulties. A finely priced DKr750m multi-option facility for FLS Industries, a Denish industrial company, was with drawn from the market list week by its arranger Unibank Market participants said the deal met with little interes! because of the low interest margin, which was fixed at 25 basis points for the first year of the three-year facility, rising to 37.5 for the rest of its term. The two loans for the electricity generators were finally signed last week, shifting the focus from electricity until the

two Scottish power companies come to market in January Scottish Power and Hydro Electric are expected to borrow around £500m each prior to their flotation in the middle of the year. Southdown Building Soci-

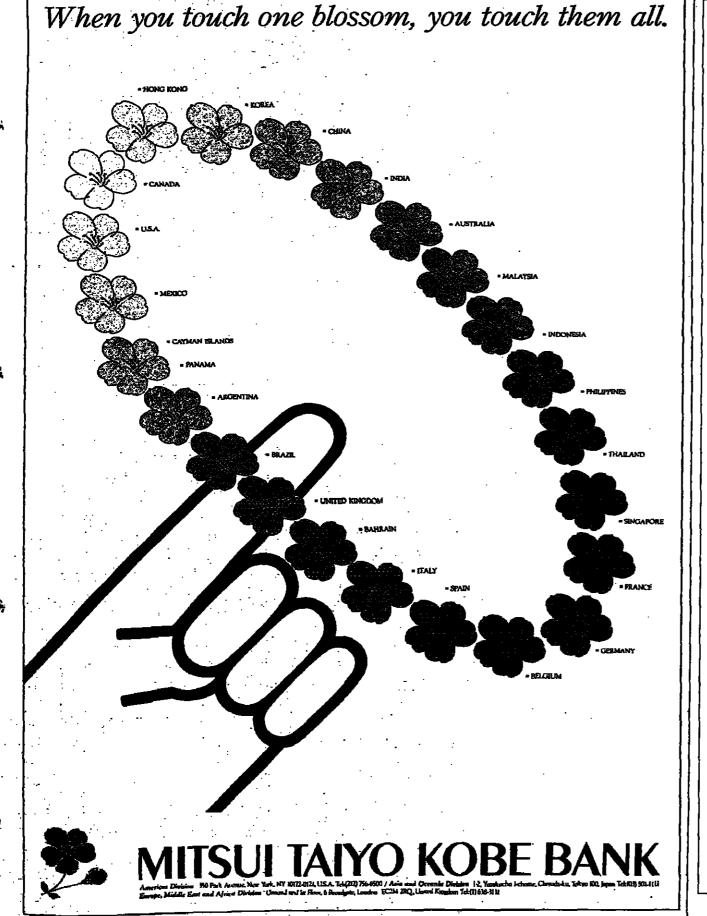
ety, created by the merger of Sussex County and Eastbourne Mutual in October, has agreed a £50m sterling commercial

Deborah Hargreaves



IADB¢ EIB(b)¢ Snow Brand Foods(d)¢¢ Misawa Homes Co.(j)¢¢

100 94.518





9.552

• Increase in Net Asset Value since launch (April 1985)

(Sterling) +127.3% (Yen) (+89.7%)

Net Assets (at 30/9/90)

£97.5 million (Y 25.5 billion)

 NAV per share over six months -15.7% to 30/9/90

 Decrease in TSE 2nd Section (Sterling) -22.2%

Index over six months to 30/9/90

Extracts From Chairman's Statement

"Your Company has continued to perform relatively well, both against market indices and competitive investment vehicles. Under the difficult circumstances outlined in the Investment Manager's report, the low liquidity of the securities in which we invest made it impossible to avoid a short-term reduction in the Company's asset

Markets that have fallen do, however, mean cheaper, more annictive investments. The warrants issued at the launch of the Company expired on 30th June 1990, raising approximately US\$8 million, the additional liquidity will enable the Investment Manager to take advantage of these market conditions. A new issue of warrants was declared on the basis of one warrant for every seven shares held on 15th August 1990 and dealings commenced on 18th September.

There is now some underpinning provided to the Japanese equity market by the bond market and by the currency. We expect both of these to remain in place. These circumstances will provide the opportunity for fast-growing companies to provide excellent returns. The rest for your advisers will be their ability to identify companies which avoid the impact of a slowing Japanese economy in 1991.77

P.A.F. Gifford 20th November, 1990



WORLD STOCK MARKETS

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Transport 903,11 916,79 915,29 905,17 1212,77 82 6,66 07	.44 — — — — — — — — — — — — — — — — — —	Creft, Miller (16/12/84) BELGIUM Brissle SE (Cash Mir.) (1/1/80) DERBARK	475.54 477.77 5082.37 5120.68	473.63 477.08 5108.98 5139.01	703.29 (19/3) 4999.43 (12/1)	406.98 (25/9) 4959.99 (25/9)
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STANDARD AND POOR'S Compasite: 326.82 329.34 330.19 326.42 348.95 29	i.46 368.95 4.40 100 (1.6/7/90) (1.6/32)	PRANCE CAC General (31/12/82)	435.36 442.88	441.20 442.46	564,62 (30/5)	410.18 (26/9)
Industrials 392.53 385.42 386.28 381.98 437.37 348	.86 437.37 3.62 0.00 (16/7/90) (21/6/32)	CAC 40 (31/12/87) GERMANY FAZ ANSIM (31/12/58)	1635.52 1659.40 699.88 655.21	1667.85 1665.54 651.24 641.21	2),29,32 (20)4) 832,32 (19/7)	. 1485,39 (25/9) 569,69 (28/9)
C3/1) (29	80 35.24 8.64 (100 (9/10/89) (1/10/74) 120 201.13 4.46	Chemicalant (1/12/53) DAX (30/12/87) HONG KONG	1845.5 1863.7 1522.40 1517.80	1854.1 1821.9 1517.24 1492.68	2014.0 CM 1968.55 (20/3)	1628.7 (28/9) 1334.89 (28/9)
Amez Mid. Value 305.74 306.71 307.71 306.11 382.45 288	7.07 0.6/7/901 (25/4/42) 1.07 397.03 29.31	Harry Sony Bank (31/7/64) IRRELANO	3125.69 3150.12	3169.79 . 31A4.62	3559.89 (25/T)	2738,24 (J/2)
NASDAQ Composite 368.83 371_50 370.42 367.99 469.60 325 016/77 016	100 0.0/10/891 09/12/72) 6.44 485.73 54.87 7.00 09/10/891 031/10/72)	SEQ Overall (4/1/88)	1281.17 1259.24	1249.79 1235.84 533.81 533.79	1913.16 (22(1)	1193.66 (5/12)
Dec. 7 Nov 30 Nov.23	year ago (approx.)	Banca Com. Nat. (1972) JAPAN Rithel (18/5/49)	550.90 547.28 24349.50 24642.97	533.81 533.79 25999.41 25958.97	763.52 (14/6) 38712.88 (4/1)	900,67 (29/11) 20221.86 (1/10)
Dow lookstrial Div. Yield 3,98 4,01 4,06 Dec. 12 Dec. 5 Nov.28	3,90 year ago (approx.)	Tokya SE (Teplat (4/1/66) 2nd Section (4/1/68)	1809.32 1813.98 2885.63 2838.31	1779.50 1771.63 2507.67 2576.16	2867.70 (4/1) 4477.16 (16/7)	1525.45 Q/109 2763.32 (5/12)
S & P industrial div. yield 3.31 3.42 S & P findl. P/E ratio 15.89 15.89 15.37	2.92	MALAYSIA KI,SE Composite (4/4/86) NETHERLANDS	508.11 505.63	499.02 500.52	632.22 0,60	459,08 (28/9)
		(25 Tel. Sta Cont. Cod 1985) (28 AR Str (End 1983)	230.6 230.1 169.0 168.6	228.8 229.3 167.7 168.1	271.9 (20)7) 206.3 (3/1)	225.6 (\$0.11) 165.6 (\$0.11)
NEW YORK ACTIVE STOCKS TRADING ACTIVE STOCKS TRADING ACTIVE STOCKS TRADING ACTIVE STOCKS	Millions	NORWAY Osio SE GOO (2/1/83)	675.65 671.13	660,13 668.96	915 13 (2/20	653.46 (21/11)
Gen. Motors 2,140,900 33% - 1 Hew York	ec. 14 Dec. 13 Dec. 12 150.880 162.110 182.270	PHILEPPONES Marila Camp (2/1/85)	690.25 GET EF	675.98 664.29	1140.70 (21/3)	514.80 (5/10)
Philip Morris 1,811,200 50% - % Amex AT & T 1,642,000 30% - % RASDAQ	10.954 10.912 10.856 <u>6</u> 122.018 122.2%	SINGAPORE SES AN-Singapore (2/4/75) SOUTH AFRICA	328.36 329.40	325,86 325.81	446.B7 (16J7)	301.45 (11/10)
Motorola 1,522,900 49% - S Res	2,004 2,027 2,035 502 782 957 1,009 750 589	JSE Bestrial (28/9/78) JSE Bestrial (28/9/78)	1124.04 1141.0 2981.04 2995.0	1168.0 1190.0 3906.0 2994.0	3217 0 (PLS) 3517 0 (PLS)	1124.0 (14/12) 2640.0 (1/10)
Ford Motor 1,464,000 2514 - 12 Uschanged Citicorp 1,436,900 1314 - 14 New Highs	493 495 489 6 30 34	SOUTH KOREA** Kens Comp Ex. (4/1/82)	710.06 712.82	724.53. 725.5%	928.52 (A/I)	566.27 (1.7/9)
ISM 1,435,200 1111, - 13, Hew Lows Waste Magust. 1,398,900 3512 - 12	43 42 56	SPAIN Machi SE (19/12/85)	238.23 241.20	241.17 240.13	309,74 (16/7)	289.37 (28/9)
CANADA		SWEDEN Milanariden Ges. (1/2/37) SWITZERLAND	897.A 962.3	898.0 905.5	1329.9 (5/7)	815.6 (27/ 11)
TORONTO Dec. Dec. Dec. Dec.	1990	SWITZERILLAND Serbs Bank Ind. (31/12/58) SBC Geograf (1/4/87)	648.3 649.7 534.8 535.3	648.8 644.1 535.1 532.3	845.5 (3)/7) 698.2 (3)/7)	613.4 (28/9) 510.4 (26/11)
14 13 12 11 HIG Metals & Wiperals 2783.70 2793.90 2803.41 2766.69 3453.05 Companies	(4/1) 2485.60 (8/11)	TAIWAN** Weighted Price (30/6/66)	4304.31 4372.38	4333.26 4693.72	12495.34 (10/2)	2560.47 (1,7.69
Composite 3244.22 3252.56 3252.54 3239.25 4009.47 MONTREAL Partfelio 1729.66 1743.01 1743.79 1731.63 2060.90		THAR, AND Banglak SET (30)4/754	649.58 644.10	640.28 661.88	13/03.78 025/77	544.30 (30/13)
Base values of all indices are 100 except NYSE All Common – 50; Stams Toronto Composite and Metals – 1000. Toronto Indices hased 1975 and 83. † Excluding bonds. 2 Indostrial, plus Utilities, Financial and Transp	Moztrezi Portfolio 4/1/	NFORELD M.S. Capital Intl.0.(11/70) (S) **Saturing Dec \$ Subject to official resolution	473.5" (78.3 ember & Taiwan Weig	475.0 473.2 Inted Price: 4745.46	5/1.0 (4/1) Korea Cosso Ex. 733 ofetes at 15.00 GM	423.1 (28/9) 3.73

TOKYO - Most Active Stocks Friday 14 December 1990

WORLD INDUSTRIAL REVIEW

The FT proposes to publish this survey on January 14 1991. It will be of particular interest to 54% of Chief Executives in Europe's leading companies and 94% of Captains of Industry in the UK who are FT readers The US Senate and House of Representatives receive hand delivered copies of the FT Daily. If you want to reach these important audiences, call Brian Heron on 061 834 9381 or fax 061 832 9248.

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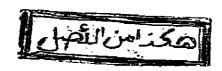
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ADVERTISING

The left's saving grace

Felipe González, Spain's prime minister, talks to Peter Bruce and John Lloyd

here is one European leader who professes to no concern over the ssue of sovereignty, or of the issue of sovereignty, or of the encroachments a future Europe might make upon it. Mr Felipe González, prime minister of Spain, is as strong on one side of the issue as Mrs Margaret Thatcher has been on

"Let me say immediately that one cedes sovereignty in order to share it. Some people have the false idea that you can give sovereignty to some-one else so that they can run our country, which is absurd. I agree that politics has its contradictions. I accept that we are in a D-Mark zone. The difference between there being [one day] an EC institution to define monetary policy and the reality now is that we depend on the D-Mark, but according to the decisions taken in the Bundestag and not on common decisions shared by all.

"So we cede sovereignty to have a share in decisions, to somehow win sovereignty over monetary policy. It is an obvi-ous contradiction and everyone knows it. But no one says it like I do. Maybe no one thinks of saying it, of recognising it." Mr Gonzalez has established something of a reputation for saying things which others do not - even if he is too self-con-

scious of it. There is a debate about whether or not this man, still young, ever was "really socialist" in the years of clandestine political activity which preded his rapid rise to lea ship of the Spanish Socialist Workers Party (PSOE) and to the top office.

But it probably does not mat-ter now. Mr González has been ader of the PSOE for 16 years and prime minister of Spain for nine. He has presided over the transformation of a dowdy market economy into one of west's most attractive, yet he is still considered one of the most successful leaders of the

Delegations from the emerging eastern European democra-cies have made Madrid a place of pilgrimage. While they go to they travel to Madrid for advice. The Romanians, the Poles and the Czechs – all ask the same questions: how does a poisoned totalitarian economy

become a rich one?

Mr Mikhail Gorbachev, the Soviet President, was the last one to make the trip and hear alez lecture: there are no lessons in Spain for eastern Europe or the Soviet Union.
"What the beginning of

he European summit which has just ended in Rome is arguably the

most important event since the

Community was founded 40 years ago. The two inter-gov-ernmental conferences inaugu-

rated on Saturday should launch the 12 decisively down

the parallel roads towards eco

nomic and monetary union and much closer political integra-

tion. If these processes are pur-

sued successfully, western

breakthrough towards the kind

of Community originally envis-aged by the founding fathers.

Yet despite its obvious sig-nificance, the Rome summit

turned out to be a curiously dour affair. There was none of

the exultation that greeted the Dublin summit in the summer

and the first Rome summit two months ago – both of which marked big steps towards the decisions of this weekend.

Instead the post-conference

atmosphere was jaded, and just slightly apprehensive. Mr Jac-

ques Delors, the Commission

president, openly expressed his

'mistrust" that the negotia-

tions on Emu would be deliber-

ately de-railed, and warned

darkly that this would precipi-

Four phenomena may

explain this strange turn of

events: post-climactic weari-

ness; the Delors factor; the

Major factor, and apprehension

at the immensity of the issues

tant, but is clearly significant. This year has imposed an

extraordinary load on Europe's

diplomatic machines, starting

with German unification and

the "two plus four" negotia-tions, going on to the Vienna arms talks and the CSCE sum-

The weariness is least impor-

tate a political crisis.

facing the IGCs.

democracy did to us was to fling us up against reality," Mr González tells visitors. "For socialists it meant the passing from the accumulation of an reality to the need to manage as opposition or government the social and economic realities of our country."

Mr Gorbachev later described his talks with Mr González as "perhaps the most important I have ever had". 48, handsome, and ageing per-fectly – the distinguished flecks of grey hair, the little stomach roll where once the stomach was flat. His three children are not unlike others of their age — the boys chase girls and perform badly at school. His daughter wants to wife has finally got a job - as a PSOE MP. The trick may be that Mr González is not embar-rassed to pronounce himself as

him elsewhere. "What still identifies me as a socialist? Well, my rejection, a person's health can be subject to the rules of the market place. If you can afford the product, buy it. You can't? Well, you are finished. If someone without money needs a kidney transplant our duty is to give them the opportunity."

wisdom has long since placed

There are not many people who talk like this and who are still_running countries in western Europe, which may be why Mr Gorbachev seemed to take what he heard so seriously. "Look," says Mr González, leaning forward out of his couch, "Gorbachev is in a terri-ble fix because perestroika cannot rationally or legitimately be explained by the October Revolution (which is what he is trying to do). That means looking to Lenin to explain everything while what is happening is the exact opposite of what the October revolution

"I have said that there has never been a Spanish model," he says. After Franco's death in 1975 ended four decades of at moderation, at mutual respect, at tolerance, that gave rise to a great degree of under standing. There was extraordinary improvisation. No one knew how the whole thing would work out.

"Also, Spain had a personal dictatorship, not a totalitarian system. Franco and, later, Pinochet, showed us that market economies are perfectly compatible with dictatorships.
"But the last thing I tell visi-

IAN DAVIDSON

on Europe

mit, continuing with the problems of the Soviet Union and

eastern Europe, expanding with the Iraq crisis, and cli-maxing with the Rome sum-

At the end of such a year, it

is astonishing that the US

administration should have imagined that it could force a

Gatt crisis which would push

the trade negotiations to the top of the European agenda,

ahead of the future of the Com-

munity; in the event, the heads

of government had neither the energy nor the inclination to devote time to the factitious

When history is written, Jac-

ques Delors will have a tower-

ing place in Europe's Pan-

theon; but he does have a

tendency to take the construc-

tion of Europe rather person-

ally. He fears that the IGC on

political union will result in a

reduction in the relative role of

the Commission: he predicts

that many people will try to

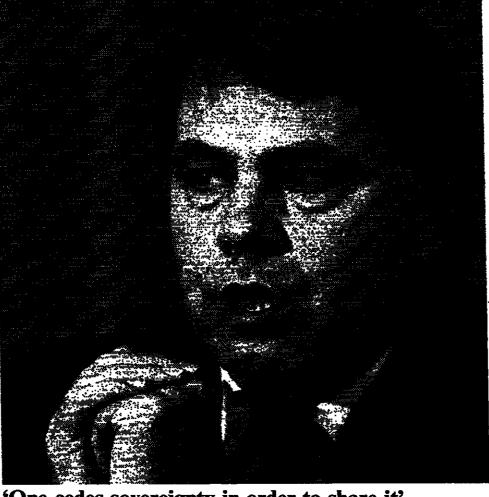
prevent an agreement on Emu; and he believes that his over-

tures of compromise towards

the British plan for a hard Ecu were spurned by Mr Major.

Mr Delors' fears are not all

Gatt crisis.



'One cedes sovereignty in order to share it'

tors from eastern Europe is things are going to be had. And I can say this from my Spanish experience. Franco died in 1975 and the whole world rejoiced...but we went through a terrible economic crisis and we discovered that international solidarity did not translate into economic aid or flow of investment."

Mr González's considerable luck since coming to power in 1982 just at the time of a global economic recovery has often led people to make rather absurd comparisons between him and Mr Thatcher. But he is, and he would not object to

PERSONAL FILE

1942 Born in Seville. Joins Spanish Socialist Party (PSOE).

1965 Graduated from law school. Continued studies at The Catholic University of Louvain, Belaium.

1966 Opened labour law office in Seville. Elected first secretary of PSOE. 1982 Prime minister

Re-elected for second 1989 Re-elected for third

description, managing and not pioneering. The frontiers of the state are by no means under attack in his Spain. Nine years on, the state still sets tariffs and petrol prices. It still owns the biggest airline, the the biggest banks. It protects monopolies in tobacco and inefficient cabals like pharma-

He dislikes labels. "Take Denmark," he says. "Who doubts Denmark is a capitalist country? But its public sector accounts for 60 per cent (of the economy]. Or Italy, whose Christian Democracy – which

equally founded. The French tendency to identify with the nation state has long been at odds with the potentially

the Commission by the Rome

treaty. So when President

Francois Mitterrand declares that the EC's end-goal is a fed-

eration, he counter-balances this domestically alarming idea

with a plan to strengthen the inter-state role of the European

summits. French officials pro-

test there is no conspiracy to weaken the Community, Mr

Delors, however, still fears that atavistic French reflexes are

too strong. Mr Delors is almost certainly

correct in believing that a fail-ure of the Emu negotiations

would provoke a political crisis. But failure is not inevita-

ble, and Mr Delors' alarmist

sense of anti-climax in Rome; it

is also the mirror image of the belated apprehension at the

political undertaking which

The new British prime min-ister was lavish with assur-

ances of his constructive inten-

tions, and the other governments were anxious to

give him the benefit of the doubt. They hope his inclina-tion is more profoundly Euro-

pean than Mrs Thatcher's, but they just wonder, in any case,

they suppose he will need time

The problem is that Mr Major's presence in Rome

delayed confrontation between the European ideal and the

complexities of political real-

ity. So long as Mrs Thatcher was

around, the debate over the

talk is not obviously helpful. The Major factor is the most immediate explanation of the

Fading of the EC fairy tale

example: "Many colleagues is by no means a leftwing alternative - has nationalised more than the Social Demothink about what we have done in the past decade and say what they have done is all crats in Germany or Sweden."

Nevertheless, he enjoys the fact that socialist parties in Europe have stopped talking very well but it wasn't what we (socialists) are about. But that is dogma." about commanding the techno-logical heights of an economy More than any other social-

ist leader in power, Mr Gonz-ález has been concerned to make explicit at least some of

the contradictions between

being "socialist" and institut-ing market reforms. Where

others deny them, or bury

them, or try to prove the seam-lessness of the web their party

has always spun, he is relatively frank.

We left as we came, through

the Moncloa Palace garden full of the bonsai trees which the

prime minister collects and

cultivates. The symbolism is clear that the political project

is no longer a grand system, but a myriad of small growths. Many of them, as one of his colleagues told us, do indeed

come from Japan. But others

are planted and raised in the

parting company. Mr González's party's own split last year with the socialist Union General de Trabajadores (UGT), which it founded more than 100 earlier, means the dreaded deed is done. The union broke away complaining about the conservative drift of government economic policy.

Thave to say that the party

and that socialist parties and

trade unions are gradually

would not have taken this decision had the union not taken it he says with relief. "The Social Democrats in Sweden are moving - very slowly, as the Swedes fortunately do towards the separation of the party from the unions. Oskar Lafontaine is demonstrating this in a dramatic way in Ger-many and in the past decade what has Neil Kinnock done: Basically, revived the Labour

He lingers a little on this concept. For him, all parties of the left are undergoing a simi-lar process – "recovering their autonomy" from the restraints and embraces of natural allies, particularly the labour unions. They are now free to become, he thinks, parties which can propose ideas, projects and tradition - but not parties of class, or of a defined set of economic principles. They

travel light. But Mr González is an odd mixture. He craves his autonomy, but wants to drag the left, "a new left", with him wherever he goes. He wants to be popular but he wants to be a thinker as well. He wants to do the obvious but he constantly has to tell his support-ers what the obvious is. For

political future of the Community took place in a fairy-tale

world of ginger-bread castles and wicked witches. The

wicked witch could scream, but the children knew that she

could not stop them getting to the ginger-bread castle, where

they would live happily ever

Mr Major has brought an end to this reassuring fairy-tale.

more effective than the old wicked witch in stopping the

children from getting to the ginger-bread castle; others fear that some of the children are

really secret allies of the new

witch: and all are afraid that there may not be a ginger-bread castle, after all.

The hard fact is that there is

no European integration with-out political stress; and if we

are at the most important turn-ing point in the Community's

history, then the political

stress will be correspondingly great. There is no way to finesse economic and monetary

union with a trick Ecu; that

kind of ploy is merely dishonest, and if Mr Major succeeds

in de-railing Emu, then Britain

will deserve the political ostra-cism which it will get.

surprising that the atmosphere in Rome on Saturday afternoon

was sober, not to say sombre.

How to help the Soviet Union

was Mr Eduard Shevminister standing in the White House Rose Garden as President George Bush announced \$1hm in emergency food loans. The ceremony showed the US at its generous best while forcing viewers to ponder how a once proud nation could have alipped into such abject dependency. If capitalism rather than communism had found-ered, it is doubtful that the magnanimous in victory. The US support – plus the billions pledged by European Community leaders - is worthwhile even if it provides only a tem-

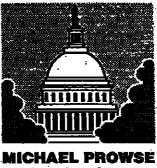
porary breathing space for Mr Mikhail Gorbachev. But the Soviet Union's future will be largely determined by its ability to achieve a peaceful transition to capitalism. In this context, the poten-"special association" with the International Monetary Fund and World Bank can hardly be

This represents an historic re-engagement rather than an entirely new relationship: the Soviet Union, after all, played a full part in the 1944 Bretton Woods conference that acted as midwife to the fund and bank although it shunned immediate membership. But what, if anything, does

the special associate status sig-nify? Will it have any legal standing? The White House was quick to emphasise that the Soviets will not gain acces to the large financial resources of the Bretton Woods institu-tions: there will be no loans of any description. Nor would alterations to the fund's articles or the bank's charter be required.

The new status is primarily intended to allow the Soviet Union to tap the institutions expertise and provide a frame-work for implementing the study of the Soviet economy commissioned at the Houston conomic summit.

Associate status, however. raises a number of questions. The fund and bank are essentially a club whose privileges are reserved for members who



on America

abide by the rules and pay their subscriptions. The only-extant long-standing relation-ship with a non-member is with Switzerland. But here the Bretton Woods twins have been the beneficiaries: Switzer-land contributes to the International Development Associa-tion (the World Bank's concessional finance subsidiary) and provides a lucrative market for bond issues. The link with the Soviet Union, which will involve per-

union, which will involve permanent representation in Moscow and – if it is to have any impact – a quite large commitment of manpower, will inevitably be a drain on the club. Why should other members, many of whom are much poorer than the Soviet Union (a billion people in the develop-ing world still live on a \$1 a day or less), allow such a diversion of resources?

The short answer is that a smooth transition to a market based Soviet economy is in everybody's interest. In addi-tion, the special association is evidently intended as an evolutionary step. The Soviets, at any rate, are dead set on full membership. Mr Barber Cona-ble, the bank's president, recounts how on a recent visit Moscow he listed the obstacles to membership and warned Mr Shevardnadze that "protracted wrangling" was inevitable. Mr Shevardnadze left the meeting undeterred, telling reporters they had agreed it was time the Soviet

The technical problems mainly involve capital allocations. The Soviet Union would need a 4 to 5 per cent stake but, following the tussle over

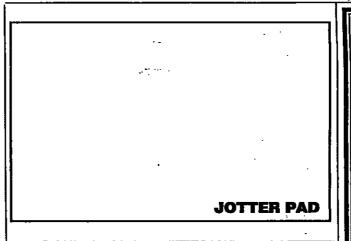
Japan's increased voting power, none of the other members would readily concede a diminished status. The US owns just over 15 per cent and does not want its share to drop because it would then lose veto power over changes to the bank's charter. Group of Seven countries own 52 per cent and would not wish to lose their majority share. Developing countries already feel discriminated against because they own only 42 per cent of the bank despite paying its \$1bn running costs through spreads on loans.

A more fundamental objec tion is that the Soviet Union is politically and economically and borrowing rights to be con-templated in the near future. How can a nation that may soon disintegrate join a club as soon disintegrate join a ciub as respectable as the fund and bank? There is force in this objection but in many respects the Soviet Union's problems are simply those of eastern Europe writ large. Yet the eastern European states are now members and are receiving heavy financial assistance.

The bank, for example, will lend the region \$80n to \$90n over the next three years, which represents about 17 per cent of its planned lending to middle income countries. IMF stabilisation and structural support will add another \$3bu to \$5bn. And officials note that countries can typically raise \$4 from private sources for each \$1 lent by the Bretton Woods

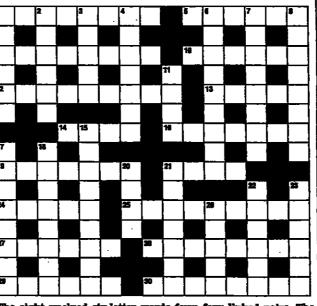
The Soviet Union will get considerable bilateral financial support, particularly from Germany. But given the momen-tous issues at stake, it is questionable whether the fuzzy "special association" proposed by Mr Bush represents a big enough contribution by the fund and bank. There is a limit to what legions of advisers can achieve without hard cash.

In the West, after all, even trifling tax reforms are considered unthinkable unless the losers can be compensated Copious technical assistance is much better than nothing but history may judge that a rather fuller commitment was needed. The risk is that tom-



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The eight unclued six-letter words form four linked pairs. The twelve-letter pairings form anagrams as follows: DIVER IN GREEN; DRAPES IN GOLD; JUMBLE RACKET; THE SECRET CUE. Solvers should identify the pairings and fit the six-letter words into the grid where possible.

1 Cancels, as telephone system not working? (5,3)

Interfered with pet dream, being roused (8)

Expand, putting river in for one to illustrate (9)

Label's description that is

expressed in weight (3-2) 14 Teeth sometimes do; some bcome sharp (4) 16 Those who draw with diffi-

nomic and monetary union culty irregular rule has proand the creation of a political druced (7) 19 Plants novice in Important fielding position (7)
21 Savour the dance – not the will require every member state to consent to massive last (4) 24 Going flat out (5) losses of apparent sovereignty.

If the two IGCs succeed in the 25 Thin barley (not English) could produce complex situtask sketched out by the two Rome summits, the political ation (9) structures of the nation states 28 Indicate the hour for the of Europe will be transformed intervening period (8) 30 Sweet success? (5-2) beyond recognition. It is not

8 Clear expanse (5)
4 I'm being sent up in body language (7)
6 Regarding period of work, get marching order (5,4)
7 Nice fish — rice dish (8)
8 Sits casually — about to eat?

8 Sits casually – about to eat?
Order required (8)
11 Taking part in Emmy theatrical awards? That's pure fiction (4) 15 Always concerned with

environment, continuously providing leaflets? (9) 17 Do 100 clues? Crazy! Causes teeth to gnash (8)

18 One who systemises - in

secret? (8)
20 Rock bed that's under the window (4)

window (4)
21 Scene in which performers are frozen stiff? (7)
26 Topped bean right and left (shaped like a kidney) (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 29.

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FINANCIAL TIMES SURVEY

EAST MIDLANDS

Monday December 17 1990

SECTION III



After a period of rapid regional growth during the 1980s, the strongly diversified economy of the East

Midlands is now facing leaner times, reports Paul Cheeseright, Midlands Correspondent

Strain starts to show

THE East Midlands, which had enjoyed the fastest regional growth in the UK during the 1980s, now faces, at best, the familiar problems of economic downturn and, at worst, the battering of recession. The region, which had done well from the Thatcher years, faces leaner times under Mr John

Major. Just how lean depends on the area, for there is no uniformity about the East Midlands. This is a region which is not a region. It has no homogeneity, rather, it is patchwork of counties pulled together for administrative reasons. Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire have little in common and frequently little interest in each other. Nor-thampton folk find it easier to reach Birmingham or London

than Nottingham. It is true that there is a fabric of organisations which think regionally: the Confederation of British Industry, the Engineering Employers' East Midlands Association, East Midlands Electricity. But for the most part in the countries. the most part, towns, counties and companies pursue their

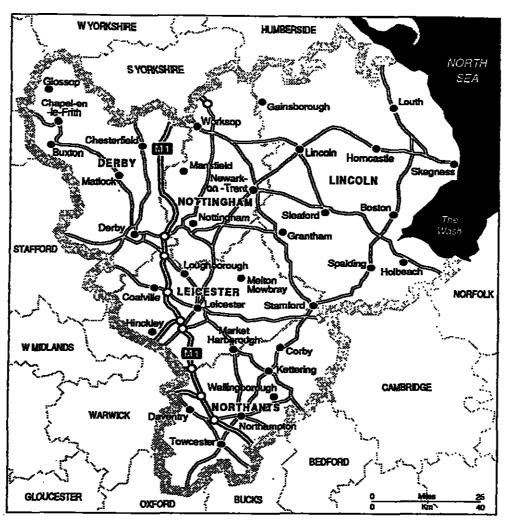
own local concerns.

The concomitant of this tangle of local political and corporate activities is a strongly diversified economy. No single

the West Midlands. Metals. minerals, chemicals, engineering of everything from jet engines and power generating sets to textile machinery, textiles, footwear, agriculture lots of agriculture - food pro-cessing, distribution, printing and a growing services sector all testify to a varied economy. No single town dominates

the region in the sense that London acts as a focus for the whole of the south east of England or in the sense that Birmingham overshadows the West Midlands. Nottingham may see itself as the centre of the region, but Derby, Leicester, Lincoln and Northampton are significant centres in their own right. The downside of this is that no town is sufficiently large to develop into a financial centre of much more than secondary importance. Nor do large employers dom-inate areas. While there is no denying the significance of Boots, the pharmaceuticals group, to Nottingham, or Rolls-Royce to Derby or the clutch of GEC factories to Lin-coln, the East Midlands is a region of small and medium-

sized companies. The economy started to slow in 1989 when the growth of gross domestic product slipped to 3.7 per cent from 4.7 per cent in 1988, 6.4 per cent in 1987, 4.0 sector assumes the economic per cent in 1986 and 5.5 per cent in 1985. Likely growth this year, despite the fact that the



regional economy held up bet-ter for longer than in other parts of the UK, will be a modest 1.3 per cent, rising to 2.8 per cent in 1991, in the view of Business Strategies, the regional forecasting group. Businessmen state that "it now feels like the early 1980s all over again" as declining order-books and heightened pressure on margins reduce their inclination to make new investment and turn confidence into uncertainty. The rate of business failures in the East Midlands is running over 30 per cent higher than in 1989. Small companies are having

are demanding a one-to-one ratio of debt to equity instead of three-to-one in what now look like the halcyon days of

Notwithstanding the lay-offs at BREL, the railway equip-ment group in Derby, the rate of unemployment is going up only slowly. But companies om to be in an interregnum: orders and sales are going down, unit costs are increasing and stocks are beginning to mount, but the stage has not been reached when manpower is being reduced on a savage scale. According to the November edition of the CBI-BSL regional trends, capacity utilis-According to the Northampton-shire Enterprise Agency, new business is finding that banks ation in both the East Mid-lands and Scotland is holding up better than elsewhere in the

UK. But the harsher climate has implications which go cial concerns.

Springing out of the changing fortunes of the domestic economy, it is possible to detect three disparate areas where activity is becoming more intense or where existing urgent because of the economic downturn.

investment. While the East Midlands generally has probably received a fair portion of central government relocations and a trickle of migrating companies from the south east of England, it has emphatically failed to attract as many over-



being paid to joint public sec-tor-private sector activity.

Thus, Nottingham Develop-ment Enterprise has concerned

itself with, among other things, the proposals for a new rapid

transit system and city centre

management: Lincoln City

Council is seeking central gov-

ernment approval for a joint

company with the private sector - like Birmingham Heart-

lands; business and council in

Derby have commissioned a

consultant's report on future

city development; North Not-

tinghamshire Training and Enterprise Council is laying

the stress on enterprise as a

means of finding a new eco-nomic equilibrium after the

The third area is political. Stimulated by the economic situation and, in the urban

areas, the poll tax issue, the political pace is quickening as

the next general election

approaches. There is much to

Generally, the Labour hold is

departure of coal mining

play for.

venture urban development

better organised neighbour, the West Midlands. These projects, however, provide new stimuli for growth.

The search for them has been

encouraged by the decision of Toyota, the Japanese group, to build a car production plant on an old airfield near Derby. Certainly, the Department of Trade and Industry, through the Invest In Britain Bureau, and latterly through the English Unit, has sought to take the region to a wider investing public overseas.

But the East Midlands has neither an active and subsilike the West Midlands Development Agency nor a wide array of financial inducements for the footloose foreign com-

The CBI is leading an attempt to bridge this gap and is finding support in the private sector and among public bodies like the Leicestershire County Council. But in Not-tingham and Northampton, at The authorities in Northamptonshire do not wish to be linked to the East Midlands. Those in Nottingham prefer to follow their own line. Regional diversity is clear, regional identity is shadowy. Second of the areas where

the downturn makes existing problems more serious is the inner cities and the districts affected by the departure of coal mining. There are no urban development corpora-tions in the East Midlands to ON OTHER PAGES Inward investment pulling power is curbed by local diffidence take the strain. Local authori-

Property market taking a breather. ingly tight limits. On the assumption that rais-■ Labour and training: skilled ing the general prosperity of a workers in demand.

Engineering industry

Footwear producers. city by, for example, improvements in its infrastructure, will help the distressed areas. there is increased attention

- pages 2-4

Banking and financial services: growing regional expertise.

■ Coal industry prospects
■ Taxilles Clebi E Textiles, clothing sector, a major regional employer.

stronger on the local authorities than in the parliamentary constituencies, yet the traditional urban-rural divide does not work in the East Midlands. The rural areas, the shires, remain a Conservative stronghold. But the Conservatives also hold urban seats as a result of the 1983 election. although ground was lost in 1987. Of 42 seats in the East Midlands, the Conservatives hold 31, and of these 27 are held with majorities of more than 10 per cent.

The swing of political events suggests that, in urban areas, Labour should strengthen its majority in seats narrowly held andwrest control of others. Unless, of course, there is 2

means business tor companies East Midlands.

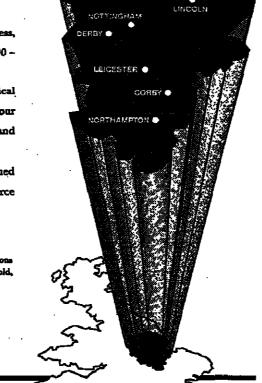
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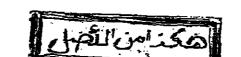
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مكذاس القصل



antially English county, predominantly rural Northamptonshire - for centuries a centre for sh in flavour with market villages, leafy by-ways and stately

MENTION inward investment in the East Midlands and the first word that springs to the lips is Toyota. To be sure, it region in general and Derby-shire in particular that the Japanese motor corporation agreed to come. Such large pro-jects are highly prized and there is fierce competition from country to country, region to region, to obtain

But the region attracts less inward investment than its position in the British economy would suggest it should. At the Department of Trade and Industry, it is noted that the East Midlands' share of the gross domestic product is 6.5 per cent but its share of overseas investment is about four per cent.

The official figures show that there are 268 foreign com-panies in the region. Some are long-established: Caterpillar, for example, relocated a British plant to Daventry in the 1940s. Others are new operations. some are capital acquisitions. Nearly half of the companies

are from the US. The distribution is uneven. Presumably reflecting the geo-graphical tilt in the national economy towards south-east England, there is, in the loca-tion of the companies, a distinct bias towards the southern part of the East Midlands: notably Northamptonshire but, to a lesser degree, Leicester-

chire as well Using Invest In Britain Bureau figures, Coopers & Lybrand Deloitte, consultants has worked out that the total value of overseas inward investment projects in the East Midlands between 1984 and the end of the first half in 1990 was £1.1bn.

But this figure is distorted by the inclusion of £704m for Toyota, taken as one entry into the table for 1989, when the spending will be spread over several years. With the Toyota figure stripped out, the total is

reduced to £396m. Over the same period, how-ever, the West Midlands, to which the flow of funds has been more regular, amassed £1.4bn of overseas inward investment projects. The East Midlands accounted for three, four or five per cent of UK inward investment during each of the years between 1984 and

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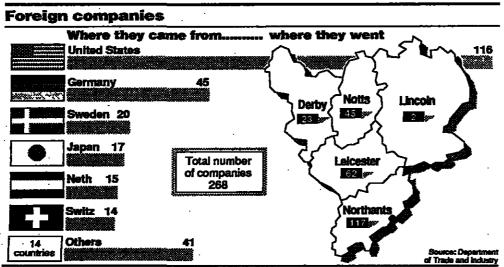
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West Midlands, after accounting for four per cent in 1984, subsequently recorded annual percentages ranging between 16 and 27 until 1990.

Interpretation in the Part Midlands, after accounting for four per cent in 1984, subsequently recorded annual percentages ranging between 16 and 27 until 1990.

Interpretation in the Part Midlands in the Pa

Investment in the East Mid-lands from other parts of the UK is more difficult to quantify. Certainly there has been some private sector relocation by companies seeking space and relative freedom from the congestion which has become increasingly associated with the south-east. And there is little doubt that towns such as Corby and Northampton have been a magnet to expanding

The southern part of the region was caught up in the general expansion of the south east economy during the 1980s, but the notion of a corporate mass migration seems based more on chatter than fact.

That said, the region has had its fair share of relocations by government bodies engaged in both decentralisation and the search, given a greater degree of self-control over running costs, for a cheaper existence than that obtainable in the London area. The moves of English Heritage and part of Inland Revenue to Nottingham

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official put it, "Where is it and what is it?"

for new investment, from both home and overseas. The reasons are standard. The official explanation is that inward investment will help to ensure that the region is at the forefront of technologsubsidy.

The second and more signifiical advance, that it will fill gaps where unemployment is difficult, that more generally it provides jobs and that finally,

it is a stimulus to new manage ment techniques.

But the region has problems in attracting it, despite its prosperity, its easy industrial relations and, within the Brit-ish context, its straddling loca-

tion between south east and the north. It tends to be over-looked in the scramble. As one

There are two factors at play here. The first is that the aid packages which can be offered as inducement to potential investors are limited. This is not necessarily decisive: companies are generally interested first in location and labour availability and only second in

cant factor is that the region has not been sold to potential investors in the same way as, say, the West Midlands, Scot-land or Wales. As the East Midlands Region of Chambers of Commerce noted: "At present, the East Midlands is one of the least directly publicised of all

the regions in England. In many other parts of the UK regional development organisa-tions are active in presenting their region's image. They receive financial support from central government."

There is no equivalent in the East Midlands although the Confederation of British Industry is now behind a movement called the East Midlands Awareness Campaign, soon to be called the East Midlands

Investment Campaign.
Meetings have been held in
the five county towns. York
Consulting of Sheffield is working up a strategy which will concentrate not only on inward investment but also on the identification of specific pro-jects which will plug gaps in

the infrastructure. How successful this effort will be is open to question. It is difficult to pull together five counties which frequently have little in common. Northamptonshire leaders have made clear they want nothing to do with it: "we can see that our economic future is much more closely linked to the south east," said one senior

official In Nottinghamshire the attitude is at best ambivalent and there is no inclination at either city or county level to subsume local efforts to attract new business in a wider campaign. Leicestershire, on the other

hand, is enthusiastic. Mr Philip Hammersley, chairman of the CBI's regional council, acknowledges the exis-tence of local jealousies but observes that the focus of the effort is on the private sector and claims a large measure of support across the board.

There is some fear of trying to impose a super regional organisation which will push everything out of its way, but nobody has said anything of the kind," he commented.

Paul Cheeserlaht

PROPERTY MARKET

Taking a breather

THE Henley Centre may predict that the East Midlands will be one of the four regions with above-average population growth this decade (the others growth this decide (the others are East Anglia, the south-west and, inevitably, the south-east). But, notwithstanding an 0.5 per cent a year increase from its present population of 3.93m, the East Midlands remains a secretive part of Britain, not ready to flaunt its attractions like its more extrovert neighbour, the north-east.

Thus, while Nottingham is the undisputed capital of the region - and has just been voted the city with the best quality of life in Britain - it shows little sign of boom or even bustle. Perhaps this is because it is taking a breather after a peried of outstanding after a period of outstanding growth, but it may be a rather long time out.

Just before the property

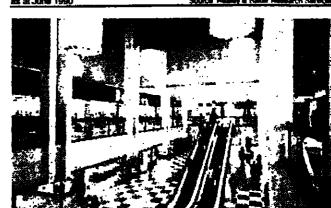
market shut down across the country with the onset of recession early this year, the city attracted a major division of the Inland Revenue, which rented 300,000 sq ft of central office space. But such a transaction is by its nature out of the ordinary and the 50,000-1m sq ft of new offices under construction or proposed at pres-ent look like having few tak-

A similar lassitude has overtaken the retail sector with the council's hopes for east-west expansion of the city centre unlikely to be fulfilled for some time. The north-south axis along Clumber Street is longestablished and anchored by two relatively successful shop-ping centres - the Victoria Centre owned by Capital and Counties and Broadmarsh, owned by Postel Both have plans for refurbishment and possible extension, but not yet. Meanwhile, piecemeal refurbishment takes place in fits and starts along Clumber

Pedestrian-flow east and west is sparse, with little to attract shoppers off the main pitch. And prospects for change were dashed some months ago when Grosvenor Square Properties publicly can-celled its proposals for a 90,000 sq ft specialty shopping centre on the old Pearson department store location. That is now a level 25-acre site which hardly improves the appearance of this part of town. Following Grosvenor's decision, other proposals for shopping centres were quietly monthballed.

Nottingham's retail problems do not seem as acrite as those of Leicester, however, where the Fosse Way centre or the city fringe has attracted shoppers and retailers away from the centre. Opinions differ strongly among estate agents as to whether the centre can fight back, but Healey & Baker which is joint agent with Weatherall Green & Smith on the Shires Centre at the end of the main Gallowtree Gate shopping pitch, is quietly confident that it will be nearly fully let in time for its April 26 opening date next year. The Shires, a joint venture between Imry Merchant and the city council, is a 500,000 sq ft scheme with two main stores

Prime rents: compound growth over 5 years W Midlands Office i Industrial as at June 1990



acilities on two levels.

(already let to Debenhams and Lewis's) plus 74 small units. The argument as to whether Leicester centre will still be under-shopped once the Shires is open still rages as Arlington Securities painfully embarks on the piecemeal site assembly for its proposed redevelopment of the Haymarket and Lewis's old store. But that 750,000 sq ft project is still some four years off and meanwhile the fringe-of-town developments continue. These so-called retail parks are causing headaches for both civic fathers and prop-

The region has undersold its attractions, suggests CHRISTINE MOIR

erty entrepreneurs alike because they appear to be able to escape planning controls. Originally, planners encour-aged the relocation of space – consuming and unattractive semi-retail, semi-warehouse operations such as DIY and fitted kitchen centres, to fringe sites with limited goods permissions. In areas where the city centres were not strong magnets, however, this soon got out of hand.

Retailers which would otherwise have found a natural home in the high street were attracted to the retail parks by their lower rents. Moreover they soon found that the limitations on the planning permissions stood a good chance of being overturned on appeal in this age of government-sponsored competition

The recent white paper on the environment offers some hope of closing the loopholes with its concern about the effects of traffic flows into resi-dential areas. But in Leicester and Derby much damage has already been done and estate agents believe it will be difficult to redevelop the city centres without either massive over-shopping or brutal disrup-tion to shopping patterns which have even seen Marks & Spencer move into retail parks. Mr Angus McIntosh, the Healey & Baker partner responsible for research, believes that when the recession lifts, the retail sector will be the first to recover. He is

also confident of the region's overall prospects as an alternative population centre for those disaffected by the congestion of the south-east. But he concedes that in the short term there will be a dramatic drop in Others look to industrials to lead the way out of a slump, as well as making the best showing during it. The region had the most marked growth in industrial rents of anywhere in

the UK in the year to June,

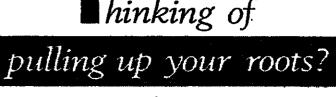
with prime rents advancing by

21 per cent, according to Mr McIntosh's statistics. There has even been some further advance this autumn. Toyota's recent choice of Derby for its new European car plant is a further indication that major manufacturers continue to see the region's attractions. That can only have use-

ful spin-offs in the smaller

centres and among component But the Toyota move is an exceptionally bright note in what is otherwise a dull tapestry. And certain pockets and sectors suggest genuine cause for concern. Part of Derby's attraction for industrialists is that, notwithstanding the recent above-average rental growth, prime factory rents of £4 a sq ft are still highly competitive against, say, Bristol at £6. If the recession persists, that margin may narrow or become stale news - and that would not be good news for a region which needs to sell its

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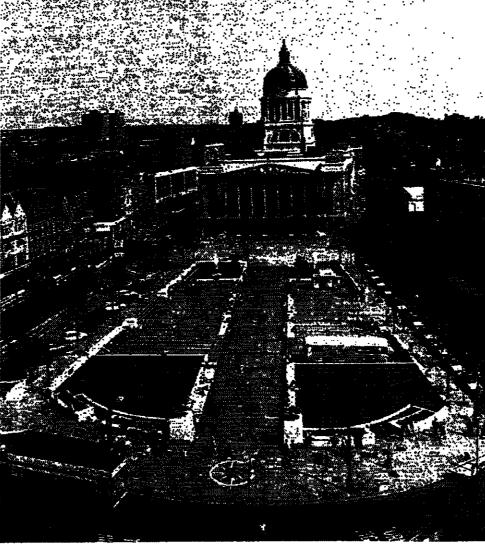
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Skilled workers in demand

SKILL shortages remain in the East Midlands, despite the rise in unemployment. This is apparent from the surveys which the developing Training and Enterprise Councils have been carrying out in their local

Figures published in November by the Department of Employment showed that the regional rate of unemployment at 5.3 per cent remained lower than the national average of 6.0 per cent. Indeed, the unemployment rate in the East Midlands was lower than in seven UK regions and higher only than the rates in East Anglia and the south east and southwest of England.

The number of jobless, seasonally adjusted, crept up from 67,900 in January to 75,600 in October. The stock of unfilled vacancies at job centres was falling by 400 each month, on average, to last October, while the number of vacancies notified to job centres over the same period was dropping by an average of 600 a month. Yet the broad totals disguise

sharp disparities within the region. Unemployment may be less than two per cent in the rural areas around Northampton but it pushes up towards 30 per cent in some of the Not-tingham inner city districts and in parts of the old coal mining areas of Mansfield.

For all that, the prospects for an increase in the number of employed are less than rosy. Using the Nottinghamshire Chamber of Commerce survey as a barometer, the proportion of companies intending to increase their workforce fell to 29 per cent by September from 34 per cent in June, while 12 per cent of companies expected to reduce it, against seven per cent in June.

Nevertheless, a third of companies in the survey are finding difficulty in recruiting the personnel they require. This is not abnormal - research by the Derbyshire County Council and one of the local TECs established that over 30 per cent of companies in the south of the county had recruitment problems and expected them to

A Training Agency survey in Nottingham's inner city found 60 per cent of companies dealing with skill shortages. Another survey by the Lincoln City Council found over half the companies had recruitment

The Nottingham inner city survey found a shortage of tex-tile machinists, clerical and maintenance engineers, following the general pattern for Greater Nottingham. Lincolnshire TEC has drawn

attention to the problem of drawing into the county enough teachers, solicitors and accountants; it has observed recruitment problems in the ngineering, printing, clothing and electronic sectors.

In south Derbyshire, small companies are having bigger problems than large compa-nies; at professional level, the difficulty was in finding civil and mechanical engineers and at the technical level there was a need for, among others, labo-ratory technicians, computer programmers, roofers, plaster-ers, metal plate workers and

These problems are not unique but probably have been exacerbated in the East Midlands by the surge of business which took place in the late 1980s and is only now beginning to taper off. In the longer run, the region faces the prob lem of nurturing growth at generally a faster pace than other UK regions while contending with the nationally acknowledged shift in the demographic balance.

Some flavour of this shift comes from Northamptonshire County Council projections which see the number of those between 45 and retirement age rising from 102,100 in 1988 to

All areas face the now-familiar problem of a shortage of qualified managerial and technical staff

133,700 in the year 2000, but the ages of 16 and 24 declining from 81,700 to 70,400. A reduced number of school leavers points to the need for the recruitment of both older

workers and more women. Reports from the Greater Nottingham TEC show that most employers do not have any recruitment policy which takes into account the changing nature of the labour force. In that particular area, about 49 per cent of jobs are held by women and the Nottinghamshire County Council expects that 80 per cent of all new jobs will be taken by women.



But the Lincoln City Council has found that three-quarters of companies expect to recruit people with the required skills who are already in work; given the expected and steady growth of the regional econ-omy after the current downturn, that gives little hope of

any relief to skill bottlenecks.
All of this points to greater investment in both the private and public sectors on training. Under the terms of the Government's reorganisation of the national training structure, the responsibility for finding a way through these thickets is being devolved to local Training and Enterprise Councils where the main focus of control will be businessmer

Seven TECs are planned for the East Midlands: south Derbyshire and north Derbyshire, Leicestershire, Lincolnshire, Northamptonshire, north Nottinghamshire and Greater Nottingham. Taking these TECs through the process of establishing a board and staff, working up a corporate plan and negotiating the funding from central government has been slower than in the West Midlands. Only one TEC, that of north Nottinghamshire, has started operations and, cer-tainly, it will be some years

fore any impact by the TECs is visible.

There has, however, been fertile growth in the region of organisations set up to supplement the internal skills of companies with contacts, expertise and advice on more effective competition in the national and international markets.

The establishment, for example, of European Information Centres in Nottingham and Leicester not only provides companies with a service of information about European Community directives, but provides a means of access to companies in continental Europe. At the same time educa-

tional establishments are increasingly making their facilities available to business. Thus, for instance, Nottingham Polytechnic not only provides counselling on business startups but sells consultancy services which spin off from the work carried out inside the institution. Loughborough University provides a technology centre. At the local authority level, financial help and advice comes from bodies like the Northamptonshire Enterprise Agency.

ENGINEERING

Strength in diversity

WATERFALL was the analogy chosen by Mr Nigel Chubb to illustrate the state of the East Midlands engineering industry - "you are going down it, but you do not know where the bottom is.

He is the director of the Engineering Employers' East Midlands Association and his diagnosis of where the industry sits in the economic cycle is based on the regular meetings held by the association, county by county, to exchange information. But the downturn came later in the East Midlands than in other regions. become clear from surveys car-

By the summer it had ried out by the Confederation of British Industry and the Chambers of Commerce that confidence was beginning to droop as order-books thinned, but the turning point seems to have been the summer holi-

CBI-BSL regional trends sur-vey noted that with Scotland the East Midlands had the highest level of capacity utilis-ation in the UK. While it is going too far to say that the engineering sector carries the East Midlands on its back, it is the most important single area of employment in manufactur-ing which accounts for a third of the working population, higher than the UK average of

24 per cent. But the great strength of the Rast Midlands engineering sec-tor is its diversity, "making everything from knitting needles to nuclear power sta-tions," as regional advocates like to say, and the relatively small number of very large operators. Pre-eminently, it is a region of small and mediumsized companies. If the automotive sector becomes ill, then the whole region does not catch a cold, as is likely to be the case in the West Midlands.

In 1989, engineering output (at 1985 prices) came to £2.9bn, having surged by more than 12 per cent from the 1988 level. This year, according to Business Strategies (BSL) output is likely to show a growth of 3.6 per cent, its lowest increase since 1985, to £3.009bn, and may rise to £3.099bn in 1991.

But BSL points out that these estimates may change slightly, largely because the downturn came later than most expected; this would suggest that recovery will be retarded. Indeed, few expect Paul Cheeseright recovery until towards the end of 1991. Although statistically the engineering industry is

seen as a unity, this is far from the case on the ground. There is a crescent of activity, based on the county towns, stretching from Northampton to Retford in Nottinghamshire, flanked by the two stars of Lincoln and Newark on the north astern side of the region. While in the West Midlands, the Birmingham-Black Coun-

try conurbation acts as an obvious hub, in the East Midlands each county has its own particular pull. In Northamp-ton, the two largest engineering companies are Express Lifts and British Timken, the bearings group, surrounded by a host of electronics, mechanical engineering, printing machinery, pumps and shoe-

making equipment companies.

In Leicestershire, there is a machine tool sector based on Jones & Shipman and Bridgeport Machines, and lighting manufacture represented by Thorn, while British United Shoe Machinery provides further diversification. In Loughborough, there is a concentra-tion of Hawker Siddeley group companies: Brush Electrical Machines. Brush Switchgear and Brush Transformers

Rolls-Royce with its aero engines and now enlarged by the 1989 acquisition of NEI, the power-generating equipment group, is the best-known employer in Derby, a centre also for BREL, the railways equipment manufacturer, and Qualcast Garden Products, the

In Nottingham, a city tradi-tionally associated with Boots, the pharmaceuticals group; Raleigh Industries, the hicycle manufacturer, employs around 1,000 people; while GPT, set up by GEC and Plessey, makes enhone exchanges.

Lincoln is a stronghold of the GEC group, through Rus-ton Gas Turbines and manufacturing activity running from diesels to semi-conductors and valves. It is also the home of Ruston Bucyrus, with its earthmoving equipment and Rose Bearings, a Japanese invest-ment. At Newark, Dresser Pump Division has its UK operations and RHP Bearings has its industrial precision and

aerospace divisions.

To the extent that it is possible to generalise from the diversity of activities and the varied markets in which the myriad companies operate, the reports coming into the Engi-neering Employers show that commercial conditions are the worst since the 1980s recession. Redundancies, although not

Rolls-Royce, with its aero engines, is the best-known employer in Derby East Midlands engineering secyet on any wide scale, are runtor, have been running at around nine per cent. ning at double the rate of 1989. For the most part, though, the slack is still being taken up by cutting the number of shifts and reducing overtime. One

> general shortage of capacity. On top of that there is fear of entering a period of high labour turnover and a general reluctance to throw away, by redundancy, investment made in training. However, Mr Chubb has spotted a shift in It is pre-eminently a region of small and medium-sized companies concerns among engineering employers over the last year.

In 1989, the pre-occupation was with stability of exchange rates. That has now been partially achieved through UK membership of the exchange rate mechanism of the Euroter in the county than elsewhere in the region.

The decision by Phoenix Electric, the Japanese group, to site its European light manufacturing at Coalville in Leicester. pean Monetary System, although at too high a level for the taste of many companies.

Now, the main concern comes from being caught up in the vortex of high inflation with its pressure on wage costs and high interest rates with the uncertainty they bring to investment plans. The effect of these two factors is to put pres-sure on margins in the domesexacerbated in the export markets when the factors are combined with the relatively high exchange rate.

reason that redundancies are not yet widespread is that there was, until, early 1990, a

The economic downturn has eased the pressure on the labour market, where, during the late 1980s, there was the customary clamour for skilled personnel. The downturn is also expected to work its way through to the level of wage increases, which, through the

Engineering companies in the region know that they are in the stop part of the stop-go cycle. But there are counterbalancing factors which in some areas will lessen the impact. They spring from new investment which will enhance the corporate infrastructure.
The arrival of Toyota, the

Japanese motor group, at Burnaston in Derbyshire, is a case in point. While there are fears among Derbyshire employers that Toyota's eventual need for 3,000 employees could suck personnel away from other employers, the presence of a new car manufacturer should give a boost to the component cturers not only in the West Midlands, their tradi-tional base, but also in the East. And it was significant too that in the summer, when the market was turning, a survey by Price Waterhouse, consultants, and the Nottingham Business School found that confidence was holding up bet-

shire, represented a further step away from coal mining for the district into a higher technology commercial environment. The fact, too, that Brit-ish Gas is going to centre its Loughborough is equally a long-term boost for the science-based industry of the region.

For the moment though, East Midlands engineering eyes are looking downward, trying to see the bottom of the waterfail. The longer term stimulus will only be visible when eyes again are lifted to the horizon.

Paul Cheeseright

MOTTIP

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The statement



Imports hit footwear sector

FOOTWEAR has long been synonymous with the East Midlands. The industry employs around 15,000 people

in the region.

The biggest concentration of exporting companies is in Northamptonshire – 25 of the 6l businesses listed in the British Footwear Manufacturers' Federation exporters' directory

are based there.

Another seven are located in Leicestershire and three in Nottinghamshire. Northamptonshire is also the home of the 500-member Shoe and Allied Trades Research Association, SATRA.

Based in Kettering, the association is a centre of high-tech efforts to reduce the amount of labour by using computeraided design and manufacture.
It expects to spend £l.4m on research this year.
SATRA's efforts are badly

needed. In September alone, the industry lost almost 1,000 jobs, according to the British Footwear Manufacturers' Fed-

The chief culprit is growing imports, whose volume has

grown by 31 per cent since 1982. Last year import pene-tration reached 66 per cent, in volume terms.

At one time, Italy was seen as the biggest threat. But the shift to non-leather shoes accompanying the leisurewear boom, and to sports footwear in particular, has moved the focus of concern to low-cost producers in the East Asia. Some East Midland opti-

mists argue that the retail squeeze could see UK consum ers going for longer-lasting, higher quality footwear offering better value for money -which would favour the regional industry at the ense of imports.

Asian imports have soared by 50 per cent since 1982. Imports from have Taiwan doubled. Import penetration in textile-uppered footwear reached 86 per cent in volume terms last year.

The reasons are not hard to find. The average price of foot-wear leaving UK factories last year was almost £8. Yet importers' prices averaged little more than £5 a pair.

Some producers have fought nology. But only a few compa-nies, such as FII (formerly Footwear Industry Investors), are big enough to be able to afford the necessary invest-

FII is the UK's second biggest footwear manufacturer and a major supplier to Marks & Spencer. It is regarded as one of the most efficient mannfacturers with profitability well above the industry aver-Reckoned to be the third

biggest UK footwear producer, Northampton-based Burling-ton International was formed when its management bought le factories from the British Shoe Corporation in 1988. Since Corporation in 1988. Since 1989 it has been strengthening its brand presence - it already had the Saxone name - by buying up mostly small, specialist, niche footwear producers.

Others are attempting to cut costs by assembling imported components.

components.

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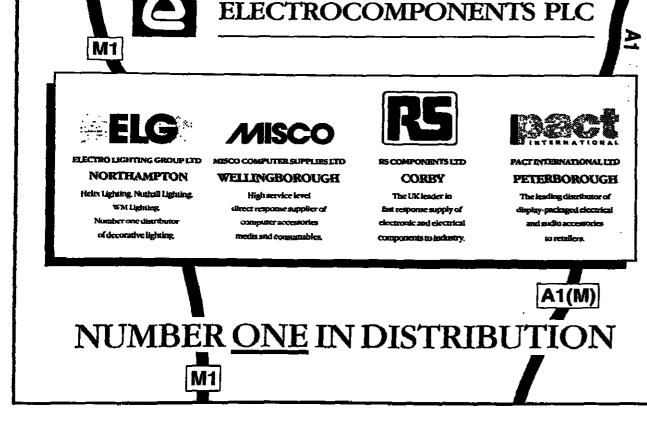
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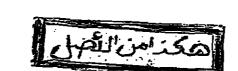
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TOMORROW'S WORLD.



He sees prospects for addi-tional growth in the West Mid-

lands and parts of East Anglia.

He also sees considerable

potential for high quality dis-tribution facilities in Europe

where the same changes in the

distribution industry are tak-

ing place. He is looking at sev-

eral potential sites in Europe

on a joint venture basis. Gaze-

ley will also continue with

selected office and industrial developments. As Asda's in-house property arm Gazeley has built a great variety of pro-jects — mostly in the leisure

field — which have been required for planning purposes or have helped to acquire sites.

The company has, for instance, designed and built a library, art workshops and

multi-screen cinemas and is currently working on a second large hotel. Its football stadium

Club St. Jonstone was cited as

a model of its kind in Lord

Justice Taylor's report on the

Hillsborough football ground

Scottish Premier Division

Food retailers lead the way

businesses have recognised the importance of efficient distribution in controlling costs in the run-up to the European sin-

The food retailers led the way. Asda, through its property arm, Gazeley Properties, established the largest purpose-built distribution centre in Europe – Magna Park at Lutterworth in Lelcestershire. Gazeley, set up in 1987, pro-vides a comprehensive prop-

erty service to the Asda group but also operates as a separate profit centre. At Magna Park it combines both functions. The Lutterworth site, cover-

ing 500 acres on the former Sit-tewell airfield, had been acquired in 1986 by MFI, the furniture retailer which had

merged with Asda.

After its subsequent split with MFI, Asda retained the site and obtained planning permission for a first phase of 4.2m sq. ft. in 1987. A year later a joint venture - the Lutter-worth Partnership - was formed with the Church Com-missioners for England to

To date, some 26m sq. ft. has been built with some 1.5m sq. ft. still available. A planning application, backed by the local and the county authori-ties, was called in by Chris Patthe former Secretary of State for the Environment whose successor, Michael Heseltine, is expected to reach a decision in January. Suitable location is vital to

the success of a distribution centre. John Duggan, Gazeley's managing director, refutes claims that Magna Park is in "the middle of nowhere." On the contrary, he says, "it is in the centre of everywhere". Situated in a triangle bounded by the M1, M6 and

Birmingham and Bast Midlands airports are half an hour away by motorway and the ports of Hull, Ipswich, Felix-towe and Harwich are all

M69 motorways, Magna Park is ten minutes drive from all

western end of the new Al-Mi link, due to open in 1998, will also be only ten minutes away. Another important consider-

ation in choosing a distribution centre is what Mr Duggan terms the "economic drive time" so that labour and vehicles are assured of doing a full days work. It is a waste of time and money and highly inefficient, he says, to send a truck and driver on a short journey where unloading is over by lunchtime and there is

nothing to do all afternoon.
In addition to being well situated, the buildings themselves should be appropriately

Asda takes off from a disused airfield

designed for their purpose. They need to be very large – more than 100,000 sq. ft. with considerable height. Cubic capacity is as important as floor space. The buildings at Magna Park are fitted with the latest material handling equipment and the most modern computerised management information systems.

They are also designed to be visually attractive and to have a low density. To soften their impact some 200,000 trees have been planted in the area, including 50 acres of woodland which will be a public leisure

and conservation area.

Magna Park's occupants include Asda itself with 900,000 sq. ft., Volvo Parts GB, Toyota GB, Panasonic UK, Avon Cosmetics, Aspro Nicholas and German food retailer Ald UK. Latest to sign up is BDH, the UK associate of the German Merck, which has paid £13.25m to the Lutterworth Partnership for a 183,000 sq. ft. warehouse including 20,000 sq. ft. of offices on a ten acre site on a design and build basis.

Rents at Magna Park are now at over £5 a sq. ft. with the highest at £5.25 a sq. ft. This compares with £2.50 a sq. ft. in the area for industrial

space only two to three years

Mr. Duggan says that he is receiving a stream of enquiries about Magna Park from both UK and oversess companies looking to set up or improve their distribution networks in the run up to 1992. Some of the tenants have chosen Magna Park rather than a continental distribution site, he claims.

While hoping for that phase two planning will be approved by the government, he says that if the space cannot be provided quickly in the UK, international companies are likely

to go to Europe.

Like a number of other property operations set up by retailers, Gazeley is quite well placed to cope with the current troubles of the property market. Gazeley contributed £12.4mn to Asda pre-tax profits in the year to March 31, 1990, and expects a similar result and expects a similar result from the current year.

One reason for this succes says Mr. Duggan, is that Gaze-ley pulled out of purely retail developments two and a half developments two and a half years ago to concentrate on distribution, industrial and

office developments.
Gazeley has a development programme with a gross value of more than £1bn mostly in joint ventures. Its direct invest-ment is "very small".

ment is "very small".

The company has a 50 per cent stake in the Burwood House Group as part of a joint venture with Arlington. The partnership, which includes 34 superstores valued at £375m and prominent town centre valued at £75m, has provided an income stream and liberated cash.

Funding for the new com-pany was raised through lead bank Sumitomo and consists of £150m of equity, £250m of senior debt and £50m of mezzanine finance. Any future non-food retail development from Arlington, British Aerospace or Asda will be channelled through Burwood House.

In the medium term, besides servicing Asda's property needs, Gazeley will focus on



View of St.Mary's, over the River Welland at Stamford, Lincolnshire. Historically, the county agricultural area, especially of the drainage of Fens in the 17th century. Today many industries in the county are closely

An increase in financial expertise

NOTTINGHAM, according to its denizens, is emerging as the financial and professional capi-tal of the East Midlands. Some Leicester acolytes dis-

agree, but there is growing evi-dence to support Nottingham's case. The regional offices of banks and accountancy firms are appearing in the town with increasing frequency - where they are not submarged in Bir-

mingham, that is.
According to Mr Victor Semmens, deputy senior partner of Evershed Wells & Hind, the most substantial corporate law firm in the East Midlands: When I first came here 25 years ago, Leicester was the stronger centre. I don't think there is any doubt now that Nottingham has taken over. For instance, most of the clearing banks are centred in Not-

Nevertheless, Nottingham is far from being a complete financial centre. It has only one venture capitalist of any size (3i), one merchant bank (Singer & Friedlander) and one corporate stockbroker (Chap-man Trease, now part of Allied

Local professionals put that down to Nottingham's status as what one calls "an over-grown market town". Its posi-tion means it has never played a part in the finance of trade. and lawyers based in the region are accus-tomed to boarding a train and heading south in search of capital - usually to London rather than Birmingham, which itself has only a vesti-gial merchant banking and broking presence. Some want that to change.

"We'd very much like to see

more substantial commercial brokers and merchant bankers, and competition for 31," says

These prayers may be answered, but not soon. Merchant banks and brokers are facing a squeeze on their profits that makes investment difficult to mount, particularly when the flow of corporate finance deals waiting to be done in the East Midlands is alowing down, as elsewhere.

County NatWest, for instance, says it is sounding out the market in Nottingham at the moment, but does not expect to set up in the town until 1992, if at all.

Derby, the region's third cen-tre, sits uncomfortably along-side Nottingham, neither close enough be served by Notting-ham-based professionals nor far enough away to generate its own financial centre. Of the top accounting firms,

only KPMG Peat Marwick, with 65 staff, is represented in the town. Pannell Kerr Foster, a second tier national firm, is the only other firm of any size. Other accountants watch and ponder from their Nottingham strongholds, but have yet to take the plunge.

"It's only half an hour in the car, but to some clients it might as well be 300 miles," often thought about going there. But getting people in London to agree the investment is not easy: they always say resources are scarce."

Peat was followed into Derby by Wells & Hind, before the law firm merged with Birmingham-based Evershed 18 months ago. But there are also departures: Lloyds Bank has recently disbanded its local corporate branch.

Meanwhile, the growth of financial evertise in the Fact

financial expertise in the East Midlands, stimulated largely nent buy-out activity, means that the local centres are at least far more self-sufficient than in the early

Mr Roger Cole, who took over 3l's Nottingham office this year after working in the more developed centres of Manchester and Edinburgh, says pri-vate company deals of all sizes can be arranged and financed locally. "I haven't been aware of a shortage of finance or pro-fessional skills, and that was a pleasant surprise to me."

Public company transactions, however, gravitate

Meanwhile, the work on the deak of the typical East Midlands corporate finance professional has changed in character dramatically over the past year. The diverse economy of the region may have lessened the impact of the economic downturn, but there is still plenty of corporate resume or plenty of corporate rescue or insolvency work to be done.

Mr Roger Pedley, managing partner of Peat in Derby, says: "Boom or slump, the world seems to need us." His office is doing three or four times as much insolvency and corporate recovery work as it was a year

ago, he says.

Mr Roger Cole of 3i says MBOs are continuing, but are of a different character. "We are seeing holding companies falling, and leaving attractive operating companies for potential MBOs," he says. One such recently handled by 3i was the buy-out of Denby Tableware, part of the defunct Coloroll

Richard Waters

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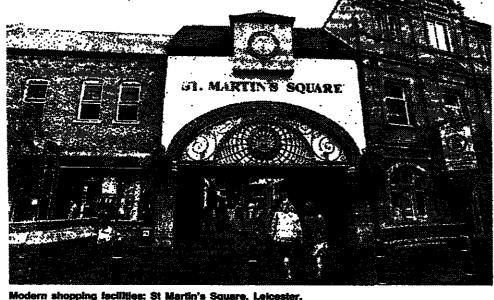
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EAST MIDLAND'S COAL MINES MARKET

Power - Cottam & H Power - Staythorpe Power - Ratcliffe

Industrial and dome

Power - Cot West Burton

Power

Ratcliffe

1991 closure

Industrial & domestic

West Burton ·

industrial and domestic

Power - High Mamham

- West Burton - Ratcliffe

ower - Cottam, Ratcliffe and

Power station (N Notts)
Power station (Didcot & N Notts)

- West Burton

Cottam & High Marnhar

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Ollerton

■ Derbyshire

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Bolsove

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Battle to stem coal import flow

MUCH of the size and high price of the coal contracts between British Coal and the power companies, National Power and PowerGen, can be traced to the East Midland mines, notably those in Not-tinghamshire.

During the negotiations just over a year ago, it became clear that British Coal's strongest bargaining card would be Roy Lynk, president of the Union of Democratic Miners. The BC chief negotiator commercial director, Malcolm Edwards – so the story goes – would leave the negotiations to visit Downing Street with Roy Lynk to impress on the prime minister the dire effects that the power company demands would have on the UDM mem-

bership. Whether or not the story is true is not important; what is undeniable is that had the power companies got their way on the amount of coal bought and the price they paid for it, many of the UDM mines would be squeezed perhaps to the point of premature closure. The power companies and British Coal believe intervention on the part of the UDM came from the then prime min-

ister herself. A year later, those pressures can be looked at in some perspective with British Coal's East Midlands pits under the protection of the overall umbrella of the three-year con-tract with the electricity producers. Apart from Gedling and Clipstone, which produce high-quality industrial and domestic coals, the Nottinghamshire mines despatch their coals to two stations along the Trent - West Burton, Cottam

and High Marnham. Those attached to Ratcliffe can take some comfort - so long as the pattern of pit-topower plant remains unchanged - that equipping of Ratcliffe with sulphur-removal (flue gas de-sulphurisation) equipment offers them a potential market stretching well into the next century. This makes burning the relatively high sulphur UK coal (when compared with import coals) less unat-tractive for Ratcliffe's owner,

Whether they can produce coal at a sufficiently low price to stay in business and keep Ratcliffe high on the power station merit order, is very much a different question. Thoresby will have no trouble if it can continue as it has over the past few years with operating cost below £1 a gigjoule, well below the selling price of £1.72 a gigjoule to the power stations and easily the cheapest produc-

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SOUTH

ing mine in the country, year-

Wellbeck, Ollerton and Harworth are also among BC's prized producers. The conundrum for BC is that the Ratcliffe tends to be supplied by Nottinghamshire higher-cost mines than those serving the Trent stations. And, while the Ratcliffe market looks relatively secure from imported coal, those on the Trent are anything but secure. The Trent ously close to the expanding ports on the Humber at immingham and Hull as well as the proposed Associated British Ports big coal importing facility close to

The planned APB terminal is particulary threatening to British Coal because it can acccom-

The new Astordby mine is due produce 4m tonnes of power station coal a year from 1992

modate the largest-sized ships carrying coal — Capesize ships. These enable the UK to benefit from direct shipments from South Africa, Colombia, the US and Australia. Apart from relatively small tonnages coming through Liverpool, most UK imports are trans-shipped at Rotterdam, a process which can add as much 59 a tonne to their landed cost.

Fortunately for British Coal, ABP, having obtained planing permission for the terminal in the summer, has subsequently gone quiet on its plans. It is believed to be looking for both backers and for guaranteed throughput at Immingham before it converts the planning permission into wharfs and

In particular, it is targetting National Power for support, partly because of National Power's large adjacent power capacity at West Burton, Eggborough and Drax and partly because National Power has not yet secured the sort of importing advantage enjoyed by PowerGen at Liverpool.

BC once sought to shelter behind the false comfort that the power stations were rela-tively distant from the ports ("You can't put the power stations on rails and drag them to the coast," in the words of one senior BC executive), and that rail transport is exceptionally expensive and road transport of large volumes of coal environmentally unbearable. It is now clear that millions of tonnes of coal can be cheaply

and effectively barged from the Humber to all of these power stations. If – as seems inevitable - large volumes of imports do flow through the Humber, the very real prospects looms of a growing competition for the Trent business between Nottinghamshire and South Yorkshire, the one the home of the UDM, the other the heartland of radical Scargillism. There is little to chose bewteen the mines of the two areas, aithough some of the Notting-hamshire pits face a relatively

The problem for the South Yorkshire mines in 1989/90 was that, dogged by internecine industrial disputes, its produc-tivity went against the national improving trend and deteriorated, dropping from 4.31 tonnes a manshift (t/MS) to 4.14t/MS. In contrast, the Notts pits improved from 4.35t/ MS to 4.69t/MS and have already pushed further ahead this year. There is not doubt that both areas can make significant further productivity gains, notably following the rejection by the National Union of Mineworkers' mem-

bership of a proposed overtime ban in persuit of a wage claim.

Much is now being hyped
from the newest East Midland
mine at Asfordby, a £470m venture due to produce 4m tonnes of power station coal a year from 1992. Asfordby is almost certain to be BC's last new mine as a national industry and the company is profundly hoping that it will contain none of the nasty surprises that its last venture, Yorkshire's Selby, sprung. No one expects that Asfordby will be as thoroughly faulted as Selby has proved to be, although it does start life with the handicap of low heat values and

high moisture levels. Nonetheless, Asfordy will be the first mine which starts life with the working week planned around a six-day oper-

One of BC's battles has always been the public percep-tion of its operations having more in common with the 19th century than the 20th. Baring a totally unexpected marked deterioration in the perfor-mance of East Midlands' mines, nothing should be fur-ther from reality. While some of the Nottinghamshire mines are unlikely to be producing coal in the early years of the next century, the bulk should join Asfordby in an extended life as the major supplier to the region's power stations in over

Gerard McCloskey

An Ideal

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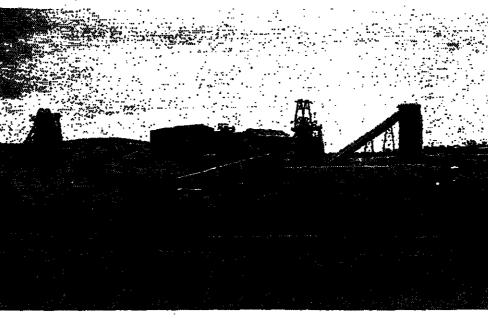
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Unseasonal weather hits sales

Setbacks for clothing and textile sectors

THE TEXTILES and clothing industries in the East Midlands employ over 100,000 people -more than any other UK

These sectors play a vital social and economic role. More than one in five manufacturing iobs in the region is in textiles and clothing. Only Northern Ireland has a higher share. About 30,000 people in the

region are employed in the clothing sector. Of the 4,000 jobs in UK lace manufacture, almost all are in the East Midlands. Dyeing and finishing are also important, accounting for 9,000 jobs - a quarter of the UK total. But by far the biggest subsector is hosiery and knitwear, employing an estimated 50,000 people - about two-thirds of the UK total.

Today, knitting is a high technology industry using computer-controlled machinery for making warp knitted and weft knitted fabrics, hosiery (tights, stockings and socks) and fully fashioned knitwear.

The knitting industry has faced some tough periods, but the last two years have been the worst that many can

Total UK employment in knitting fell from 84,000 in 1987 to 68,000 last year. The weather has been partly

to blame. The hosiery sector has been hit by two successive hot summers, leading women to shun tights and stockings. Knitwear, too, has been hit by the weather, this time by a series of mild winters.

The unseasonal weather merely added to the gloom in an industry already hit by cheap imports and by a swing away from leisurewear towards more structured garments. The late 1980s saw the many house-hold names in the industry

The industry was dealt a major blow when Coats Viyella closed its Botany Avenue factory. Five years ago the factory employed 1,600-1,800 people and was Mansfield's biggest

employer.
Other casualties were Paisley Hyer, the Response Group and Corah. Response was bought out by its management, Corah, making knitted underwear and leisurewear, was

taken over by Charterball, although its Australian parent has its own problems and shares have been suspended.

was the fall of T W Kempton, a privately owned family business with a high reputation. Its closure had a devastating

The clothing industry emerged fairly unscathed from the 1980s, riding the back of a high street boom. By the end of the decade output was almost 12 per cent higher than at the start - faster growth than every other clothing industry in the European Community, except Portugal's.

Not all parts of the knitting

industry have done badly. Courtaulds Textiles, the new company formed by the demer-

Courtaulds Textiles claims to be the world's biggest manufacture of lace

of Courtaulds plc earlier ger of Courtaulds pic earlier this year, is staking much of its future on its East Midlands

Its lace business is based in Nottingham, and its Penn-Nyla and Long Eaton Fabrics warp knitting businesses are in Long

In the 1970s, Courtaulds was a major force in the Lancashire cotton spinning and weaving industry. But severe import competition led to a wave of closures and a strategy rethink. Today, 75 per cent of Courtaulds Textiles' fabrics business is run from Nottingham, although only a third is produced in the UK. Courtaulds identified stretch

fabrics and lace (both East Midlands specialities) for inti-mate apparel as having the ingredients for future success. As well as offering scope for greater design input, higher added value and high-tech investment, these products are relatively immune from low

cost competition.

The most sophisticated technology consists of electronicalhy-controlled Jacquard raschel machines made by Karl Mayer of Germany. The best quality lace, however, is produced on

Leavers machines, based on a 19th century Nottingham invention. Courtaulds International Fabrics' Nottingham HQ is the centre of the world's largest stretch fabric opera-

An important element of competitiveness comes from being able to offer buyers customised design. This is made possible by computer aided design, which enables customers to view designs without the expense and delay of producing samples. Sampling need be carried out only at the final selec-

At the Nottingham centre of Courtaulds International Fabrics' Laces and Textiles business, would-be buyers can view on-screen the effects of differ-ent lace designs on finished products. At least one cus tomer has placed orders based on a computer image, without even seeing a machine-made

Sampling itself has become easier. Computerised lace draughting takes a matter of days where old technology took weeks. Ten years ago it took days, sometimes weeks to make changes; today's lace machines can produce new designs in minutes, leading to quick response and customer service which Far Eastern pro-

ducers cannot match. Two other well-established names, Debfor and Birkin, are now part of the Sherwood Group which specialises in lace, bras, lingerie, swimwear and nightwear. With headquarters in Long Eaton, it has established an international network with subsidiaries in the Netherlands, Calais (another of Europe's lace centres), West Germany and Hong Kong selling 160m metres of lace annually to 70 countries.

In curtain lace, traditional

skills and individual specialisa-tion are still strong, making entry barriers high. Acquisi-tion is usually the favoured route for companies wishing to enter the market, says Mr David Rigby, director of management consultants David Rigby Associates. While Court-auds Textiles and Sherwood have invested heavily in lace and stretch fabrics, Coats Viyella has been moving out.



Nottingham lace market

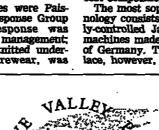
Wrightwear, a small Mansfield based warp knitted elastomeric fabric producer, and J K Lace, also small, a lace manufacture hased in Sutton in Ashfield, were sold to their managements. Instead, Coats Viyella has invested in its knitting and hosiery operations. Its Leicester factory has become a testbed for innovative machin-ery. In clothing, Coats Viyella claims to have been the first in the UK to install computerised Gerber cutters in the 1970s. Coats has also focused investment in finishing. Computer ised control equipment at Stevensons (Dyers) has helped to make the plant, based at Ambergate, Derhyshire, one of the leaders in Europe. Investment in technology

reduces manpower needs and

helps solve one of the indus-try's most persistent problems - shortages of skilled labour. Recruitment is not helped by

the industry's image, which is made worse by the emphasis on simple repetitive tasks and the piece-rate system. But Coats Viyella has introduced team working into its Meritina plant which makes slacks and skirts near Mansfield for Marks & Spencer. As well as saving money by reducing work in progress, quality is better, the first finished products emerge in hours rather than weeks and entire orders can be completed in a matter of days. Workers are better motivated, reflected in lower labour turnover.

Robin Anson

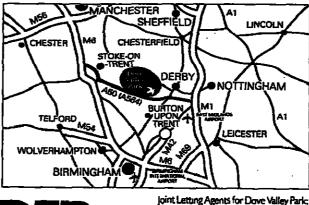






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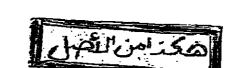
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FINANCIAL TIMES SURVEY

YUGOSLAV TRADE AND INDUSTRY

SECTION IV

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Monday, December 17, 1990



Yugoslavia's six republics are in ferment as power passes from the ruling communists to

newly-elected governments amidst the revival of ethnic unrest. Efforts are also being made to free the troubled economy from state interference, says Judy Dempsey

Critical days are ahead

FT WAS still possible to speak first time in over four decades, of a single Yugoslavia as all the six republics will have of a single Yugoslavia as recently as last year. Then, the ruling League of Communists was trying desperately to hold onto power.

But it was a pathetic spectacle. There was never one single Yugoslav communist party. Power was concentrated among the party élites in the six republics and two autonomous provinces. There, the republics were often run on the lines of personal flefdoms, with scant regard for the federal government. The federal gov-

ernment had no authority.

The late President Tito, through the sheer force of his authoritarian personality, kept the country together. All important decisions were made by him. The party *élites* in the republics dutifully toed the

But when Tito died ten years ago, the fragility of the system was exposed. The weakness of the federal government was confirmed. Today, Yugoslavia is in ferment as power passes from the communists to newlyelected governments and as the economy becomes freed from bureaucratic and state

The coming weeks and months are critical. For the

held free and multi-party elec-tions. It will soon be the turn of the electorate to choose deputies for a freely-elected national assembly or Parliament. It will then have to decide under what political system the six republics should

Because the country is so diverse - it has two alphabets, three religions, a dozen ethnic groups and as many languages
- each republic has its own review on how the country's political system should be ordered. On the one hand, the two western republics of Slovenia and Croatia want some kind of confederal system which would strengthen the autonomy of the republics at the expense of the central authorities. In practice, this would mean that fiscal policy and defence would be brought under the direct control of the republics. It would also mean that these two republics would feel less threatened by Serbia, the largest of the republics. Not surprisingly, Serbia and

some of the other republics want to maintain the federal structure. Herein lies the problem. Slovenia and Croatia fear that this system would confer



Living standards have failen sharply this year as energy costs have soared. Above: young people in Beigrade carry coal from a pile in the street. Meanwhile, prime minister Ante Markovic, right, is implementing economic reforms hinged on privatisation and a new, long overdue fiscal system

too much weight on the republic of Serbia, whose nationalists — whether it is Mr Slobodan Milosevic, the communist president of the republic, or Mr Vuk Draskovic, ead of the anti-communist, nationalist Serbian Party for Renewal – harbour ambitions for a Greater Serbia. The spectre of the past haunts the republics as much as the disin-tegration of the country, or

even the fear of civil war. Against this background, Mr Ante Markovic, the prime min-ister, had attempted to strengthen the hand of the fed-eral government by implementing economic reforms. His aim is to have a single currency, privatisation, a federal-based fiscal policy and a tight monetary policy. He has had some success with his first package of reforms which were designed to bring down infla-tion and which were introduced over 18 months ago. Last year, the monthly infla-tion rate was 180 per cent. Today it is had been brought down to 8 per cent a month. He also converted the Yugoslav

dinar by tying it to to German mark at the rate of 7 new Dinars to DML Exporters how-

Markovic's intention was to make exporters more competitive, cut production costs and attract imports so as to weaken the power of "domestic monopolists" in the Yugoslav market. He has also liberalised imports, freed most prices and has built up the country's reserves which now amount to a respectable \$10bn.

The reforms have also led to a shift in exports away from Comecon to OECD markets. Since 1989, exports to Comecon have fallen by 5 per cent to 26 per cent and exports to the OECD countries have increased by 5 per cent to 63 per cent. During the first eight months of 1990, the growth rate of exports rose by 23 per cent and imports by 38 per cent over the same period during

These measures and trends have had an impact on the cur-rent account. During the first seven months of 1990, the surplus in the current account was \$515m. The target of \$875m for the end of this year will not be reached because of the Gulf crisis. Management of the debt

has improved significantly.

Over the past few years, debt service liabilities had been running at 30 per cent of total cur-rent account receipts. In 1990,

debt/service ratio has been reduced to 18 per cent. Overall, the debt has been cut from \$21bn to \$16bn, an impressive decrease which indicates a strong sense of monetary discipline by the federal govern-

So far so good. But the cost has been high for the con-

Living standards have fallen sharply. During the first eight months, the overall growth of retail prices was 80.9 per cent and the cost of living rose by 75.8 per cent. Prices, particularly food, consumer goods, taxis and rents, are almost as high as Vienna. But unlike Austria, which is a prosperous country with one of the best GDP growth rates among the OECD countries, Yugoslavia's growth rates continue to

Industrial output for the first 9 months of the year has decreased by 10.6 per cent compared to the same period last year. The metallurgical and wood-processing industries have been particularly affected; these sectors have declined by 15.6 per cent and 17.3 per cent respectively. The federal government blames the

falling output on poor manage-ment, illiquidity and difficul-ties in collecting payments for goods delivered and declining demand by the domestic mar-ket owing to slack investment activity. Indeed, statistics from the federal government show that between January and July, there was a total of 10.150 insolvent enterprises with a

total of 3.48m workers and obligations estimated at NYD14m. The sharp fall in productivity is also due to a decline in investment as well as the liberalisation of imports, especially of consumer goods, whose lower prices weakened demand for domestic goods. The Guif crisis is expected to lead to a sharper fall in the last quarter of 1990. In turn, this will push up unemployment, which is now running at 12 per cent of the work force, but as high as 35 per cent in the poorer, southern regions of the country. It will continue to rise unless the government is successful in attracting foreign investment and establishing small and medium-sized enterprises which could absorb

this. He believes the delay in establishing private property rights will delay any substantial improvement in the econsome of the unemployment. Thus, containment of these problems depends on the sucomy. Hence the other dimension to the problems facing cess of the second stage of the economic reforms. Implement-Yugoslavia. To compound mat-ters, the end of the communist

Trade: concern over - PAGE 2 ■ Economic prospects: Gutf

M Interview with the prime

IN THIS SURVEY

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I TEditorial production by Michael Wiltshire

era has revived historical ethnic grievances. Nationalism thrives on weak economics. Mr Markovic is acutely aware of this dangerous collusion of forces. That is why he is anxious, as he says himself, to put money back into people's pockets as quickly as possible. He believes this will reduce the impact of nationalism and ethnic unrest. But time is running out for Mr Markovic. The greater the fears of instability. the less foreign investors will consider Yugoslavia. It

becomes a vicious circle. Mr Markovic said he needed five years to introduce the economic reforms, to turn the economy around, and to reduce the gargantuan bureaucracy. He was elected prime minister in March 1989. If his government receives another mandate, he has three-and-a-half years left to accomplish this difficult task. But even if the mandate is extended, he must convince Yugoslavs that despite all the economic difficulties and the destructive force of nationalism, their destiny lies in a united Yugoslavia. For the moment, unity is as elusive as reaching any consensus under what sort of political structures Yugoslavs



ing the reforms will prove if Mr Markovic and the federal

government has the moral and political authority to do pre-

cisely that. Ultimately, it will reveal whether or not Yugo-

slavia can continue to exist as a single state. The thrust of the economic reforms hinge on pri-

vatisation and a new, long overdue fiscal system. While

Mr Markovic rightly believes tost privatisation will facilitate

the creation of a market econ-

omy, the raison d'être of this policy is to break the power of

the local political élites throughout the country.

No wonder then that the

newly-elected governments in Slovenia and Croatia and Serbia balk at this idea. They

have obstructed implementa-tion of privatisation by insist-

ing that property rights, which

in the past were nebulously defined as "socially-owned",

should be first transferred to

the state before being transferred into private hands.

Mr Markovic is furious at

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tem on a firm footing.

rescheduling, via the Paris Club of one part of our debt. "We hope that our friends

will understand the efforts we

are putting into reforms in Yugoslvia and that they will support us with relatively mod-est sums that we need from

abroad for restructuring the banks. There is not one repub-

lic which does not have to

have a single bank rehabili-tated," he adds.

Yet in spite of the prime minister's persistent and con-

sistent steps at reform in the

face of growing nationalism, there is considerable scepti-cism that his government has neither the political nor the moral authority to implement any of these changes. Unlike

Mr Gorbachev, he dismisses the notion that the govern-

ment, or other state organs,

should be invested with more

"The FEC does not need

power to carry out [something that is] a natural process of change. If the state has been efficient, we would not have been in this present crisis, nor

would the other socialist countries. There is no choice. For

the new system to achieve eco-nomic efficiency, we will have to carry out a change of owner-

ship. Obviously I do not think that a market is ideal, but for

the moment, there is no better

the better. If there is any post

more. But it will not halt the

this logic and necessity of a market economy... it will only help to find the roads, but feels

that nothing can be accom-plished by force."

ponement, it will only

The sooner we realise this

alternative.

While Croats and Serbs trade bitter insults out in the streets, there is a

Politician who keeps his cool

lot about keeping emotions in check, about creating a balance between the rational and the irrational. As prime Minister of Yugoslavia, he must keep a cool head. He is one of the few prominent politicians

out in the streets and among the six republics, Croats and Serbs trade bitter insults. And in some towns in the republic of Croatia, both ethnic communities are heavily armed. Elsewhere Serbs accuse the Moslems in Bosnia Hercegovina of fomenting an intifada (uprising), an utterly baseless accu-

Over the past two years, scores of ethnic Albanians in the once autonomous province of Kosovo have been killed during Serbia's attempts to erode its autonomy. Today, there is as much trust between the ethnic groups as there is consensus among the republics about the country's future political order. In his view, "efforts to suspend the system [of reform] evidently leads to its erosion until collapse – and the alter-native – either the disintegration of the country or the intro-duction of dictatorship..."

In spite of this bleak analysis, he is one of those dogged, persistent, officials who believes in adopting a logical approach to issues, His placid manner and softly spoken voice can be deceptive. During the interview, he firmly stuck to his premise that economic reforms will resolve the country's problems. But is this wishful thinking?

He looks at it from a purely pragmatic point of view. "These options - disintegration or dictatorship - do exist, and I cannot even exclude the possibility that someone may even wish them to happen. But from the aspect of the real existential interests of

individual nations and nationallties of this country, and the individual republics, and the numerous ties which join them, this option of Yugoslavia's disintegration into many small states is more a wish or a theoretical possibility than a practical option. There are thousands of domestic and international agreements involved which would take many years to unravel. This process would take so long that objectively, the

Judy Dempsey and Laura Silber in conversation with prime minister Ante Markovic, a dogged, persistent leader with a logical approach to issues

option is real only in theory." Do these problems really bother the republics of Slovenia and Serbia? They are politically, economically and socially diametrically opposed. Slovenes yearn to be free from central authority and to secede from the Federation. Serbia, realising that it can no longer control the federal structures, aims at creating a ghetto, authoritarian state, unless the liberal opposition finds its voice and prevails. Slovenia wants to introduce its own market economy at its own pace. Serbia, so far, has prevented the market economy from finding its feet in the republic Indeed, local courts in Serbia have been known to prevent workers from privatising their enterprises. Under such circumstances, can Mr Markovic bring together such polarised views? He doggedly sticks to his philosophy: "A dictatorship is a real possibility only if the

'I am not convinced that multi-party elections by themselves will give

birth to democracy'

disorder in the country was of such magnitude that it would be impossible to govern this country any other way. How-ever, over the last 20 months, this government has intro-duced great changes in the structures of our society, beginning from the systemic, which opened the process of change; to ownership, the accumulation of currency reserves the curbing of inflation, the convertibility of the dinar, market liberalisation, to canital and money markets which are now being created. All these indicate that the option of dictatorship would not be

necessary." Moreover, the prime minis-ter believes that the rationality of the market will prevail over the irrationality of national-ism. He also believes free elec-

tions will take the wind out of ethnic hatred. But he admits there is no one model which would allow Yugoslavia to make the transition from the one-party state to the multi-party system — "is it only in Yugoslavia, that the transformation from one system to another system is expressed through national-ism? Can you tell me a single country where it has not been manifested? I would even say that in every country where the socialist system was destroyed nationalist forces won power on the slogens of nationalism, religion and anti-communism which means that

"Do you really think that one can order someone not to be a nationalist? There is no model for the transformation from one system to another system. Everything has to be done from scratch. There is no model to emulate. This is a process which requires time." The parallels with the Soviet

they won on the emotional and

the irrational, not on the ratio-

Union are striking.
His sympathetic critics, however, believe that the prime minister has spoken out too late against nationalism; that he remained silent over the deaths in Kosovo; that he turned a blind eye to the demagoguery of Slovenes, Croats and Serbs.

"Excuse me, everything that I and this government has done until now was precisely to keep such emotions in check and to moderate the irrational and create assumptions to achieve at least a balance between the rational and irra-

Federal Executive Council (or FEC, the equiva-lent of a federal government) did everything to create preconditions designed to create an option to prevent the nationalist and separatist forces from being the only alternatives. A new option has emerged which did not exist before: the option of the reformist forces which can no PERSONAL FILE Ante Markovic

Born: November 25, 1924. Education: Dubrovnik. Croatia. Degree In electrical engineering. Career: 1961-1986, assistant director and director general of the engineering factor.
Political advances: 1982-1985, president of the Executive Council of the Assembly of the Socialist Republic of Crostia,

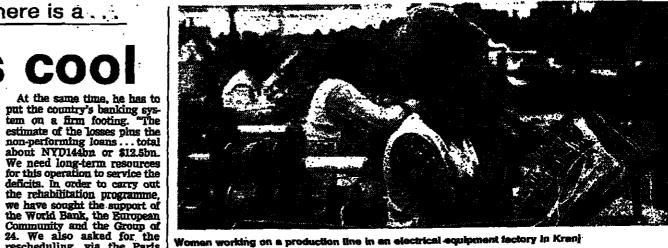
1986: Elected president of the Presidency of the Socialist Republic of Croatia; elected member of the central committee of the League of Yugoslav Communists March 1989: efected prime minister.

longer be ignored in any one Mr Markovic was referring to the Party of Reformist Forces (PRF) which he founded earlier this year and which acts as an umbrella for like-minded political group-

party primarily with the aim of breaking the mould of current Yugoslav political parties. These parties are ethnic-based and are confined to the republics. Mr Markovic wants a pan-Yugoslav, left-of-centre liberal party. So far, the PRF's performance in the republics' elec-tions has been disappointing. Mr Markovic remains patient

"The process of democrati-cisation takes time. I am not in the least convinced that multi-party elections by themselves will give birth to democracy. They are only one compo nent of democracy...the material interests of a multi-party political system cannot be identified without the identification of the property-owner."

He is making some headway He is making some in introducing private property. But he faces conside resistance from among those who believe that property rights and privatisation will erode their political privileges and power.



rical equipment factory in Krani

TEXTILES

Concern over quotas

THE TEXTILE industry was this year hit by the liberalisa-tion of imports and quotas from the European Community and the US, hampering an already dannting struggle to adapt to market conditions. Textile producers give quali-

fied support to the radical economic programme of Mr Ante Markovic, the prime minister. But they lament that the reforms caught the industry unprepared.
Officials from the Yugoslav

Chamber of Economy say that a fixed exchange rate, at DM1 to YD7, is overvalued by at least 35 per cent and has harmed exports. Industrial production declined this year in most sectors; in the textile industry, production dropped by 18 per cent

by 18 per cent. Mr Novica Medenica, secre-tary of the Association of Textile industries at the Yugoslav Chamber of Economy, attri-butes much of the fall in production to a shortage of capi-tal, needed to buy cotton, wool and synthetic fibres.

High interest rates imposed by banks have squeezed the supply of credit, which the industry's managers say they desperately need to modernise equipment. Officials estimate the industry is working at only 25 per cent of potential capac-

The textile industry employs 471,000 workers, earning sala-ries equal to about \$320 a month, well below the national average. Although cheap labour gives Yugoslav produc-ers an advantage over their European competitors, the advantage is undermined by the high cost of health bene-fits, such as maternity leave, for the mostly female work force. Nevertheless, textile exports increased by 9 per cent in the first nine months of 1990 compared to the same period last year. Total exports from January-September were valued at about \$6m. Around 35 per cent went to eastern Europe, 65 per cent to the EC and North America.

Quotas imposed by the EC

and the US on Yugoslav textile imports are a cause of constant complaint by manufacturers, say they dissuade poten

tial buyers.
"The US has imposed quota of 100,000 men's wool suits which a factory here could make in two weeks", says Mrs Vera Paranos, senior adviser at the Yugoslav Cham-ber of Economy. "Yugoslavia nts only 0.8 per cent of represents only 0.3 per cent of total textile imports on the US market, so our imports should not be subject to such strict

The Yugoslav delegation to the General Agreement on Tar-iffs and Trade negotiations is calling for quotas to be relaxed, although one textile official concedes that "realistically, it will probably take 10-15 years before the textile trade is truly liberalised." Although the federal govern-

ment has reduced the taxes levied on enterprises, munici-pal and republican taxes remain cripplingly high. The government has granted some export credits, but not enough to allay producers' fears that Yugoslavia has risked damag-ing domestic producers by opening the doors to foreign imports, while foreign markets have not reciprocated in kind. The liberalisation of imports has helped the import-dependent industry to cut production costs, through the reductions in tariffs and taxes. Cotton, wool and yarn imports totaled \$354m in 1990. But fabrics and

ready-to-wear garments totaled \$567m.
Liberalising imports has proved a mixed blessing, as foreign goods have undercut domestic sales. Producers' complaints that Hong Kong, China and Taiwan are "dump-ing low quality goods" on the Yugoslav market have not dul-led shoppers' enthusiasm for foreign brand names. Costly designer labels from Italy and inexpensive cotton T-shirts from Taiwan have eroded both

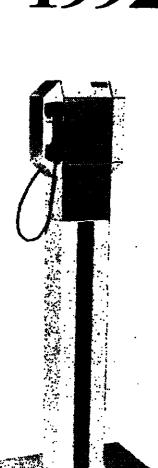
ends of the Yugoslav market. Last month, for example, Belgrade shoppers were buying Mickey Mouse baby clothes from the US. Monthly wages average only \$480, but shopkeepers reported that stock was selling fast. Yugoslav producers have lagged behind in responding to changing tastes in tashion, and consumers are willing to pay high prices for foreign brand names and the pure fibre content.

Industry officials see capital investment as the key to improving textile production, especially in the wake of

import liberalisation.
"The industry was not ready for this year's changes. But we will be able to compete, when we get the rules of the game",

Laura Silber

Europe 1992



There are three fundamental reasons for the growing role of international strategic alliances and partnerships. The first is the notorious fact about the growing internationalization of world markets. The second, of no lesser importance, is the increasing complexity of technological change. The third is the speed with which innovations are picked up and disseminated around the world.

 $oldsymbol{F}$ or advanced yet not fully developed Slovene high-tech companies there were additional hurdles related to the economy system in Yugoslavia.

 $oldsymbol{T}$ o ensure that these Slovene companies will continue to rejuvenate their traditional export orientation, a new form of strategic. partnership and business strategy is being explored: a joint venture arrangement with investors from abroad.

the Yugoslav government show a radical move away from the rigid model of the planned economy. These allow foreign investors favorable and secure terms for capital investment in Yugoslav business enterprises such as free transfer of profits, full management participation, major share positioning, etc.

The most recent foreign investment laws along with other measures of

One particular arrangement triggered huge interest not only in Slovenia but around Europe as well. Last year, a new joint venture company, based on an approximately 50 million mark capital investment by the West German multinational giant SIEMENS and the leading Yugoslav electronic corporation, ISKRA of Ljubljana, was

Both SIEMENS and ISKRA describe the new joint venture company ISKRA TEL as the most efficient way to jointly address Yugoslav as well some other countries' markets. The public telephone switching networks gradual entry into the digital era and into the forthcoming ISDN (Integrated Services Digital Network) is a highly competitive arena in a highly complex technological environment (electronics, microelectronics, electrooptics, etc.).

Both partners' motives matched each other, contributed to their competitive strengths and neutralized gaps evident in previous individual efforts to address some telecommunication markets.

Both companies' officials agree that the new Yugoslav legislation contributed a great deal to the success of their arrangement.

The experience of the ISKRA - SIEMENS joint venture ISKRA - TEL could be a sound base for addressing the challenge of the single European Market after 1992. Europe 1992 will represent a burden to those companies not capable or ready to adjust their marketing strategy accordingly.

ISKRA, of course, offers other fields of activities, which may attract the interest of foreign partners: automation, cybernetics, test and measurement componets, rotary and automotive products as well as consumer and home appliances.

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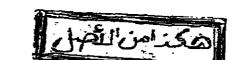


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Cautious response from foreign investors

ASK any official from any of the republics in Yugoslavia about joint ventures, and they will wax lyrical. It seems to be one of the few issues which invokes enthusiasm in a country riven with nationalism and ethnic disputes.

Indeed, officials tend to believe that the more joint ventures which exist throughout the country, the more this indicates that the economic reforms are taking hold. And because joint ventures attract foreign investment, they must - it is widely believed - be good for the economy and a vindication of the economic

Mr Andrija Jovicic, a young official at the Central Statisfical Office in Belgrade, says the number of joint ventures is on the increase During the first 10 months of this year, more than 2,307 contracts had been signed. This is a large increase from

the same period last year, when less than 580 were set up. So good so far. But do more joint ventures mean a substantial increase in turnover and investments in

Total investments amount to DM1.46bn - "yes, the

So far, the average investment for each joint venture is only about \$365,000

contracts are numerous but the amounts are rather insignificant so far," comments Mr Jovicic. The average investment for each joint venture amounts to about \$365,000.

The turnover may seen surprisingly low particularly since the federal government last year liberalised the way in which joint ventures could be set up. For example, any capital invested in a company

in Yugoslavia can be in foreign currency or dinars. capital goods, licences or franchises. Furthermore, foreigners can fully own an enterprise and the repatriation of profits and capital is guaranteed. The old days whereby

management and the workers self management councils held sway are almost over. Foreigners can set up their own management structures in the enterprises. In spite of these measures response has been some disappointing.

The reasons are not hard to find - "I think foreign investors are cautious about investing in Yugoslavia. The present political situation does not help matters. But as the government presses ahead with economic and political reforms, confidence, hopefully will increase."

Judy Dempsey

YUGOSLAVIA 3

KEY FACTS						
Population Head of State	t					
Capital						
ECONOMIC INDI	CATORS 1988	1969				
Total GNP (US \$bn)	60.5*	77.1"				
Real GNP growth	-1.7	-3.3				
GDP per capita	2.476	Π. A .				
Hard currency	_,					
Exports (USSm)	12,779	13,560				
Imports (US\$m)	12,000	13,502				
Trade balance (US\$m)	÷779	+ 58				
Current account	2,487	2,427				
Debt service ratio	31.5%	28.0%				
Debt as share of GDP Total reserves minus gold	35.4%	n.a.				
(US\$bn)	2.298	4.136				
Producer prices (change pa)	203	1.306				
	194	1,240				
inflation (change pa)	-6.5	- 16.7				
Retail sales volume	1.132	1.201				
Inflation (change pa)		1,201 -9,1				



The cost of importing oil will increase economic pressures, writes Judy Dempsey

Crisis in the Gulf clouds the future

YUGOSLAVIA will have to buy oil on the world market, exporters will have to find new markets and its current account surplus could be sig-nificantly reduced as a result of the continuing crisis in the Guif, according to Mr Boza Jovanovic, Yugoslavia's deputy federal minister for foreign economic relations.

Yugoslavia imports 10.5m tons of oil each year, of which 60 per cent is imported from the Soviet Union. Contracts for oil deliveries are made each August between Belgrade and

But in common with the other countries of eastern Europe, the Soviet Union has not fulfilled its deliveries to Yugoslavia since August. Mr Jovanovic reckons that the shortfall in deliveries could be as high as 50 per cent.

Beginning in 1991, all payments between the Soviet Union and the countries of eastern Europe, including Yugoslavia, will be switched from the transferable rouble to the hard currency. Many of these countries have substantial trade surpluses with the

In order to reduce these surpluses, Hungary, for example, effectively banned enterprises from exporting to the Soviet Union. The remaining surplus, reckoned to be about \$15n after Budapest and Moscow agreed to fix the transferable rouble to about 76 cents, means that Hungary has \$1bn worth of credit. On paper, it could have \$1bn worth of free oil from the Soviet Union, although the Soviet Union wants this to be spread over five years.

Yugoslavia has a trade sur-plus with the Soviet Union which by the end of this year could reach \$500m. Part of the surplus consists of debts owed by Moscow to Yugoslav enter-

However. Mr Jovanovic says that the surplus will not be reduced by the Soviet Union supplying oil to Yugoslavia. On the contrary, he says that Yugoslavia will continue to pay for oil in hard currency, while the trade surplus will be reduced by barter deals whose transactions and costs will be

In spite of the shortfalls, Mr Jovanovic says the Soviet Union has promised to make up the oil shortfall during the last two months of this year. about \$678m.

The shortfall in Soviet oil deliveries could

But there is no certainty that

such obligations will be met.

given the deteriorating eco-

ni noitsutis lacitical and political

be as much as 50%

the Soviet Union. Yugoslavia may thus be forced to buy oil at world market prices. In the past, it could have relied on Iraq for meeting a part of the remaining 40 per cent of its supplies. These supplies were linked to Iraq's out-

standing debts. For the past three years, Yugoslavia's exports to Iraq were worth between \$300m and \$400m. In addition, Yugoslavia had investments, mostly in construction contracts, worth another \$870m. "Our country is owed about \$1.5bn by Iraq," explained Mr Jovanovic, Yugoslavia's claims for 1990 are Earlier in the year, Iraq had

agreed to repay 75 per cent of these claims. The agreement was worked out on the basis that Iraq would supply Yugo-slavia with 3.3m tons of oil in lieu of payments. By August, Iraq had supplied 1,3m tons of which amounted to \$240m of the country's outstanding debts to Yugoslavia. Iraq's invasion of Kuwait, and the ensuing UN embargo, rendered

void that agreement. "The embargo will mean that we will now have a balance of payments deficit of \$1.3bn," explains Mr Jovanovic, who remains somewhat resentful that Yugoslavia, unlike the "front-line" states bordering with Iraq, is receiv-ing no compensation by the US or any international financial

institutions. Mr Jovanovic reckons that Yugoslavia this year needs \$500m to make up for the Soviet and Iraqi shortfalls in oil. In addition, non-payment for commodity and construc\$145m: investments in construction total \$1.76bn and the cost of machinery and other equipment in Iraq is \$250m.

"You must not forget that we had 8,000 workers in Iraq. They have now lost their jobs. Because we were highly engaged in Iraq, this embargo is costing us dearly. The Gulf crisis is adding \$1.5bn on to our annual bills."

Mr Jovanovic believes the perspective for 1991 is bleak.
"Of course it depends on the
length of the Gulf crisis and
how it will be resolved and the price of a barrel of oil."

He says that the oil bill will cost Yugoslavia \$1bn; there will be a shortfall of \$600m for unpaid claims; Yugoslavia will not be paid between \$850-\$900m arising from investments in lraq; loss of markets to Iraq will cost an additional \$300m-0m; and to compound matters, the drought during the summer has reduced yields in maize, tobacco, sugar-beet and sunflower by 50 per cent, or

L BANKA d.d.

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BANKING SYSTEM

Political forces stand in way of any reforms

THE GRIM reality is coming home to roost for Yugoslavia's banking system. No matter what reforms are introduced political forces stand in the

way of implementation.

Behind the broad smiles which often seem a permanent fixture on the faces of federal government officials, lie com-plex problems which cannot be resolved by the rhetoric of

reform or even legislation.
Enacting the legislation difficult as that may be, is not the higgest problem. The difficulty arises when officials try and implement change. Nowhere is the resistance to reform so great than in the Yugoslav banking system.

The country's banking system is a complicated one. The

structures grew out of the workers' self-management model which was set up by the late President Tito during the

1960s. On paper, workers' self-management seemed wonderfully democratic. For it was a through which Yugoslavia's

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ruling communists differenti ated themselves from their Soviet and east European

counterparts.

The system allowed enterprises the right to establish their own banks which were financed from a percentage of the capital of those enterprises. In practice, enterprise managers were automatically given a seat on the management boards of those banks. Indeed more often than not, they became the directors of those banks. Shareholders, in the western sense, had no meaning. Bank directors/enterprise managers were generally accountable only to them-

So it was not surnrising that enterprises granted themselves credits from the banks, even if those enterprises did not have the capital to back up those

By the end of the 1980s, as Yugoslavia struggled with a \$20bn external debt and soaring inflation, Mr Ante Markovic, the prime minister, began to take a hard look at

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the structure of the country's banking system. He, and his colleagues at the National Bank of Yugoslavia, or Central Bank, did not like the look of the books. The banks were in debt. The enterprises were in debt to the banks. The capital base of the banks, inevitably, was pitifully low.

Such regulations, the norm in western-style banking, were in any case neglected. Indeed, western bankers reckon that as a result of this system, the percentage of non-performing loans in the banks could be as high as 60 per cent, or about \$10bn. Thus, the need for a complete overhaul of the bank-

Some of the banks responded with enthusiasm at the idea of trying to break the Gordian Knot which bound the banks to their enterprise parents. One of these was Jugobanka. Set up more than 35 years ago, it already had a network of 400 offices, 12,000 employees and assets exceeding \$7.2bn.

But its creditworthiness was Last January, the bank, headed by a new supervisory board, executive board and board of directors, (based, inci-dentally on the German banking system), was turned into a joint-stock company or Deonicarsko Drustvo (DD). It took

Behind the smiles of government officials, lie complex problems

over the assets and liabilities of Jugobanka Udruzena Banka, its former name, and 21 of its 24 Basic Banks. Since then, it has raised \$550m on the domes-

The first issue of ordinary shares was made available only to socially-owned enterprises (a unique form of owner-ship in Yugoslavia which does not correspond precisely with state ownership) and former members and customers of the

More significantly, Jugo-banka is slowly breaking its links with the enterprises. As Mr Luka Reljic, the deputy-chairman of Jugobanka explains, "the managing direc-tor, who is appointed by the general meeting, is responsible for maintaining the bank's liquidity, and solvency. He liquidity and solvency. He alone can decide on lending for periods of up to 30 days."

The board of directors, the new management body, decides on loans and borrowings by the bank at home and abroad in excess of limits set. Above all, adds Mr Reljic, "the bank is interested in profits," Mr Reljic is a great believer in the market, particularly privatisation. Without these two factors, politics, he says, will continue to interfere in the lay-to-day running of the

"I must admit that we are still in the process of dismantiing the old ties between enterprises and the banks. There is great resistance to change. And this resistance continues because the multi-party system has not yet been established,"

The resistance stems from powerful vested interest groups on the local level, or communes. These local officials fear the multi-party system because it will institutionalise a system of public accountability. But their greatest fear is the market economy. Under the present system,

MR ANTE MARKOVIC, the

cost of reforming the bankin system could exceed \$12.5bn.

The costs take into outstanding debts owed by

Plans to restructure the

because of the lack of statistics and the way in which different republics have

country's 68 banks were drawn up last year. The main aim is to audit all the banks

ludy Dempsey.

enterprises are "sociallyowned" by the local com-munes. This means that "ownership" and property rights remain nebulous concepts. Property is not invested in state-ownership; nor is it owned by individuals.

A percentage of the com-munes' revenues come from the enterprises. So, in the case of unprofitable enterprises, they often issued themselves credits from their banks. Those credits were used to pay wages and taxes and prevent unemployment. Furthermore, it delayed any serious consideration about restructuring or becoming competitive. The banks always balled them out.

And because the communes

often worked on the basis of a patronage system in which the enterprise director was chosen by the commune, no one dared bite the hand which fed it.

"That is why there is so much resistance to privatisa-tion on the local level," explains Mr Relific. The "old-boy network" of clientelism, patronage and favours would collapse, leaving officials to the vagaries of the market econ-

"Only through economic pressure will enterprises be pushed towards privatisation," he says. That is why Mr Reliic and his colleagues want the economic, fiscal and tax powers of the powers of the repub-lics to be subordinate to the federal authorities.

That is also why, as a banker and advocate of the market economy, Mr Reljic believes that the dinar should not be devalued.

Since January 1, the dinar has been pegged to the Deutschmark at the rate of 7 New Yugoslav Dinars to DML Yugoslav exporters raised their arms in disbelief at this rate, saving that it would price their goods out of the market. On the contrary, says Mr Reljic, exporters would be

forced to become more competitive, mainly by reducing costs.

And although exporters still complain. Yugoslav bankers believe that such pressure could force enterprises to become more efficient by choosing competent managers

and employee Thus, one of the main reasons why Mr Reljic opposes any devaluation - it would play into the hands of conservatives; the pressure on enterprises to reduce dependence on banks and the communes along the road towards the market economy would be thrown away; and attempts at implementing the banking reforms would flounder. Hence the inter-dependability of the reforms and the opposition of forces to those reforms.

ilnks with the enterprise European Community's

allocated Ecu35m to help

modernise the system. In addition, the federal government invited back the

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STOCK MARKET

In swaddling clothes

MESSRS Branislay Cosic and Branislav Jorgic would be at home in any of the stock market exchanges throughout the

They are young, ambitious and energetic. Their smart new offices, concealed in a highly unusual glassbouse type green-coloured building not far from the centre of Belgrade, are equipped with banks of comduters, western newsdaders tastefully-chosen furniture.
The only trouble is that as

director and floor operation manager respectively, Messrs manager respectively, messrs
Cosic and Jorgic have very little paper with which to deal. In
fact, Yugoslavia's stock
exchange is still in swaddling
clothes, waiting for privatisation to get off the ground,
waiting for companies to raise
equity on the stock exchange equity on the stock exchange and waiting for some foreign investment to roll in.

investment to roll in.

However, Mr Cosic, who is 37 years of age, is upbeat, but realistic about the prospects of Belgrade's new stock exchange—"without privatisation, capital markets and the exchange cannot function," he says.

But in addition to these crucial elements necessary for a market economy, Mr Cosic adds that it is up to his generation and the younger genera-tion to start building a new entreprensurial class.

"After 50 years of communism, we have no experience on how to go about setting up new institutions. But over the past few months, in this short space of time, we are slowly building an infrastructure and

this building."

Some of the advice has already come from Mr Robert resident of the New York Stock Exchange. Mr Cosic says he has helped Belgrade to develop rule and statutes for the Gen-

eral Assembly."
But apart from the rules, which in retrospect, will almost seem the easiest part, Mr Cosic believes he and his

'We have no experience on how to go about setting up new institutions'

colleagues need to inform and protect any future investors. What Mr Cosic has in mind is a system which is fair in the sense that "the general public must know what the risks are when they buy shares. As far as is possible, we must tell as is possible, we must ten
them the situation about all
those shares which will be
listed on our exchange."
Essentially, Mr Cosic wants
to instil confidence from day
one when individuals start
trading. That will also mean

companies will have to produce annual and bi-annual accounts which conform to international standards. This is another aspect to the reforms

which are requiring attention. But given the economic and political situation in Yugo-slavia, where attempts by the federal government to introduce reforms are fiercely opposed by the six republics

who does Messrs Cosic and Jorgic expect to risk placing their

capital in untested shares? Mr Jorgic believes the exchange, like any other, will rely on private individuals and on institutional/foreign investors - "if we have good regulations, we will attract these people," he says rather

confidently.
So far, there have been few enterprises willing to take the opportunity to trade. But one which has — Slavonska Banka Osijek, from the western republic of Croatia – appears to be doing well. But one or two papers alone will not make the exchange a buzzing institution. No wonder there is no need for brokers – yet.

The trading hours testify to its embryonic stage. Trading is once a week, on a Tuesday, and starts at 10am. But so far, Belgrade's stock exchange

backers remain committed.

It was set up by 32 of the country's banks who each pay a fee to the exchange. But even the banking institution is undergoing a long overdue modernisation. In fact, there is today hardly an institution in Yugoslavia which is being spared the attention of the fed-

eral government. For those at the Stock Exchange, this is good news. Even though the fears of instability sometimes dulls their enthusiasm, Messrs Cosic and Jorgic believe the economic reforms will breed competition and, eventually, a small but buoyant trading floor.

Judy Dempsey



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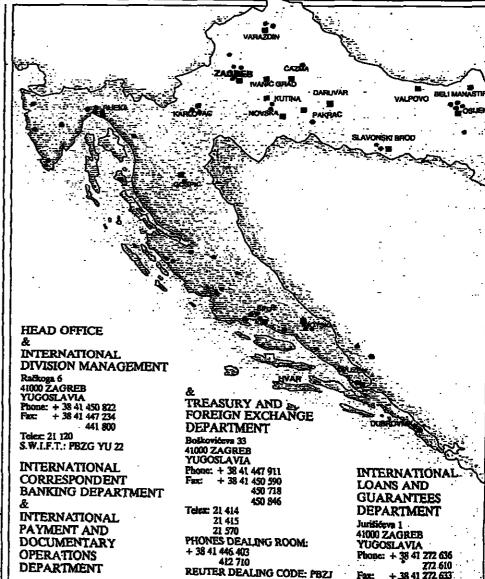
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PRIVATISATION is the buzz-word among Yugoslavia's federal government. But implementing privatisation is proving to be an extremely complicated and long-drawn out process – as Mr Branislav Lukic is finding out.

Mr Lukic, 36, is one of the

two young technocrats running the Federal Agency for Privatisation, a small tworoomed office equipped with a computer which happens to belong to Mr Radomir Denda his colleague. Their task is to restructure the existing enterprise sector in preparation for its sale; and to establish small and medium-sized enterprises with the aim of making them the backbone of the Yugoslav in the other countries of

eastern Europe, privatisation has come up against several obstacles. The Hungarian government, for instance, has been unduly cautious about selling off its enterprises both to domestic and foreign buyers, even though it is in desperate need of foreign capital to mod-emise the economic infrastruc-In Poland, privatisation is

moving along, despite persis-tent worries that a few will make a "quick buck" at the expense of the many who often feel excluded from the benefits of the economic reforms.
In Czechoslovakia, the gov-

ernment is preparing to sell off restaurants and small shops. Privatisation of the giant staterun enterprises will take place at a much later date and will be subject to certain restrictions, in particular what per-centage of the shares the State should continue to hold in these large companies.

Despite these differences there is one common thread which together binds all these attempts at privatisation: property rights. And defining property is one of the principle problems facing Mr Lukic and his colleagues. Persuading Yugoslavia's six republics to accept privatisation is the sec-ond biggest challenge which Mr Lukic must confront.

Defining property rights in Yugoslavia is like trying to make sense of the political system under which the republics existed after the Second World

The problem of defining property rights delays restructure of the enterprise sector

Privatisation: no simple task

Tito, property was embodied in "workers self-management," a system designed to ideologically differentiate Yngoslavia from the state system enunci-cated by the Soviet Union and its east European allies. But it was a system shrouded in nebulous rights and flawed by its inefficiency.

Theoretically, the workers owned the enterprises, yet they could not buy shares. They could not sell the enterprise nor could they seek foreign partners. In practice, the sys-tem became bogged down in tedious decision-making processes which facilitated the rise of a new bureaucratic class which ran the enterprises like personal fieldoms. It is that legacy which Mr Lukic must now dismantle. It is not

Far-reaching decision

On paper, the privatisation law, passed 18 months ago and refined last August in the Law on Social Capital, sets out to on. Social Capital, sees out to define property rights. In doing so, it allows Yugoslavs and for-eigners far-reaching rights to buy and own property, whether it be land, housing or

enterprises.

Mr Lukic fully realises that privatisation depends on the availability of capital and equity, and must involve the workers themselves. For this ason, the federal government intends to issue coupons to those employees wishing to obtain shares in their enter-

But unlike the Polish, or Czechoslovak experiments, Mr Lukic insists that "nobody will become owners of shares withbecome owners of shares with-out purchasing. Everybody must buy. Nothing is for free." Given the fall in living stan-dards, signs that inflation is again rising, and less dispos-able income, the federal gov-ernment has decided to issue shares to more set discount

shares to workers at discount rates - "workers and individuals will have the right to a discount, ranging between 30 per cent and 70 per cent which will the maximum discount. The scheme will work on the basis that for every year of employment, an employee will have the right to a I per cent discount, in addition to the 30 per cent which will be automatically given to the work-force at the very start of privatisation, and assuming each employee agrees to privatisa-tion, " explains Mr Lukic. "Workers will be given the chance to pay for the coupons over a period of ten years."

He reckons that the average discount will be 44 per cent "this means that employees will be able to purchase its enterprise assets for 56 per cent of the actual value...the value of the socially-owned enterprises will be reduced on average by 44 per cent. In effect, the value of capital in the enterprises will be creased by 56 per cent - that is the price which the workers

will actually pay." The government could have introduced privatisation through a more circuitous route, such as spending time evaluating the assets of the enterprises, he adds – "but we have between 27,000 and 30,000 socially-owned enterprises. If we had decided to have an official evaluation of the assets, it would have taken a very long time. We do not have that

"Essentially, we are trying to implement privatisation from below. Extra capital will be provided to the enterprises without interest or other (out-side) capital."

Despite the apparent ease in

which enterprises can "privat-ise" themselves, Mr Lukic says the opposition to privatisation is considerable. "It comes from political forces, managers, misinformation and lack of infor-mation, and ignorance." Under the present system

political groupings monopolised all economic decisions -"that's why we must introduce

Austria

privatisation," be says. "It will shift power away from politicians to the enterprises themselves. No wonder these forces resist the economic reforms."

He has no qualms in accus-ing the republics of Slovenia, Croatia and Serbia of blocking the reforms. Slovenia, at one time the vanguard of the eco-nomic reforms, advocates transforming socially-owned property not into private prop-erty but into state/public property. In addition, it wants to break completely away from the central/federal govern-

Croatia's freely-elected right-wing parliament also wants to bring the socially-owned enterprises under state control before it introduces privatisa-

epitomises the young, ener-getic, technocrat. His designer shirt (without tie), smart check

jacket, cord trousers and hand-

some brown shoes, convey a sense of style and confidence.

down the state's stranglehold

over the economy. Except that

Mr Denda is not running his own business: in fact, he is the

secretary of the government-

backed Agency for Small and Medium-sized enterprises

The agency was set up last

April with the aim of encourag-

ing Yugoslavs and foreigners

to set up their own business.

Any foreigner would have balked at such an idea. Although Mr Ante Markovic,

the prime minister, had suc-cessfully brought down infla-

tion from its annual rate of 2,000 per cent to below 5 per

cent a month, there still

remains greater uncertainty

about the political situation. So, new investors and risk-tak-

ers still remain wary of setting

(SMEs).

DENDA

ALEXANDER

tion. Mr Lukic and his colleagues say these methods serve only to replace one clan of political chiefs with another pro-government clan. They also say that both republics are attempting to suspend the federal laws.

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the republics, resistance to pri-vatisation has been the toughest. Mr Lukic cites several cases wherehy workers after voting to privatise their factory, have had their decision blocked by the courts in Belgrade, the federal and republi-can capital of Serbia – "we don't mind if the state takes over these enterprises, but on one condition: the state must prove that it has invested into the enterprise. If the state

As for Serbia, the largest of

ual enterprise, it has to pay. All forms of ownership have equal rights. Opposition to privatisation comes also from the management, a trend common to other countries in eastern Europe - "these managers think they can today obtain money for free," he says. "In the old days, they simply bor-rowed money to cover their

losses and pay wages and sala-

Managers' opposition also stems from the fact that they

are afraid of the market economy. After all, workers will want good managers who want to make profits.
Disinformation is another obstacle. Because the Yugoslav media is so fragmented. Mr

wants to take over an individ- Lukic says that getting the message of privatisation across to the workers is difficult. But he did not expect that a major speech made in November by Mr Ante Markovic, the prime minister, which spelt out the need for reforms, would actu-ally be banned from broadcast in the republics of Croatia and Serbia.

Thus, it is not surprising that Mr Lukic spends a great deal of time travelling around the country, visiting factories and explaining to workers what privatisation means. To help get that message across, the federal government has set up an agency specialising in privatisation and the setting up of small and medium-sized

lies. The role of these agencies is to consult the enterprises. find potential buyers (although the enterprise has the last say). and make sure that if, as a result of privatisation, workers will lose their jobs, they will be paid the required lump sum which is the equivalent to six months' wages.

Furthermore, the price paid for the enterprises will not go directly into the enterprise Instead, it will be channelled into the Development Fund which was set up in April with the primary task of accumulating resources and capital.

Mr Lukic has no doubt that privatisation will eventually be implemented. Despite all the obstacles, he says it is one of the weapons with which political interference in the enterprises can be once and for all smashed. That is one of the battles now facing the federal government. Mr Lukie remains cautiously optimistic that it

Judy Demosey

Government encourages small and medium-sized enterprises

Agency means business

Indeed, he seems to be one of those up-and-coming Yugo-slavs who is determined to reap the benefits of the reforms which are finally breaking

(his own), and assisted by one other colleague, this small office located the other side of town, across the Sava river, is optimistic that the SMEs will

get off the ground. The signal for setting up SMEs came nearly 18 months ago when the prime minister reckoned that one of the ways in which to revitalise the economy, attract foreign invest-ment and soak up unemployment was to allow individuals to set up their own businesses.

Although statistics are unreliable, sections of the public seem to have responded. By the end of September, Mr Denda had 37,866 SMEs on his books. These employ about 180,000 - six people to each SME. He is quick to point out

169,000 are employed.
A small enterprise is defined as including all companies which employ up to 50 people. Mr Denda believes the gross annual salary of those employed in these enterprises does not exceed DM8,000 (\$5,300). "The value of the assets per employee is less

than DM6,000," he adds. Medium-sized enterprises include those companies which employ more than 50 people, but under 250. The annual salary is about DM40,000.

It is too early to talk about turnover - "the accounts for the first six months have not yet been handed in," be says. And besides, maybe some of the new SMEs are simply too small for the moment to bother

venia in the west, and Serbia in the centre and about half of them are involved in trade, services and import/export. Some sceptics think young

Yugoslavs and smart foreign investors set up an SME principally to obtain tax concessions and circumvent duty tax on imports. But Mr Denda does not entirely agree.
"We have to take these SMEs

seriously, not just because we regard them as the potential backbone of the economy but because we are receiving sup-port from the European Free Trade Association's Development Fund. EFTA has given us \$100m, which will be spread over five years, to develop this sector of the economy. In addi-tion, the World Bank is sched-

up shop in Yugoslavia. But Mr Denda brushes aside these concerns.

Equipped with a computer

that this figure does not include the 480,335 craftsmen, of which 311,000 own their own business and the remaining mostly in the republics of Slotance programmer has already given us \$35m for this year and a further \$135m for 1991.

He hopes that such an injec-tion of capital will raise the contribution of SMEs to GNP above its current 1.5 per cent. Legislation, as well as the economic and political climate. plays a significant role in making SMEs an institutional part

of the economy. He believes that SMEs could mushroom; that many will be set up as genuine long-term operations more intent on creating an entrepreneurial class than by-passing import taxes, and that they could absorb some of the unem-ployed which total 1.24m out of a population of 23m.

Judy Dempsey

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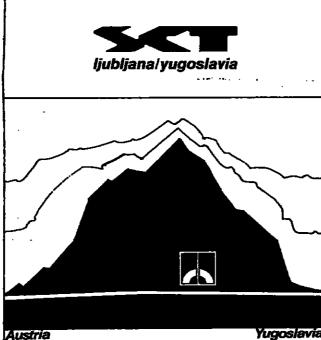
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In November 1990 the main contractor, SCT from Ljubljana, completed the construction works on the tunnel pipe and the south portal of the Karavanke Tunnel, together with the concreting of the carriageway.

Before the inauguration of the tunnel in mid 1991 the main contractor will have carried out the finishing works on the installations, close circuit TV, telephone, lighting and the security systems.

The main contractor working on the 3540 metres long Yugoslav section of the tunnel is making an important contribution to the drawing of eastern Europe closer to

After completion in 1991 the 7840 metres long tunnel will link the western European motorway system with the trans-Yugoslav highway now under construction, benefitting the economies of European countries.

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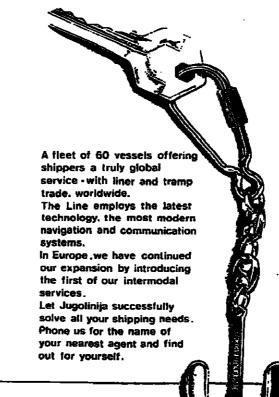
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FOOD INDUSTRY

Battle to keep pace with EC

NO-ONE involved in Yugoslavia's food processing industry – farmers, enter-prises or government – is satisfied. However, all agree on the need for complete over-

While food production is while food production is dominated by small-scale private farming, the processing industry is dominated by giant socially-owned enterprises, more susceptible to political pressure than to market dictates. Managers are all too often political apprentices

often political appointees.
Serbia's processing giant,
Privredni Kombinat Beograd,
recently kept a US delegation
waiting for hours on account of
alleged US support for the
Albanian minority in the
southern province of Kosovo –
scarcely a gesture of commits scarcely a gesture of commitrime to a market economy.

Prime Minister Mr Ante Markovic is working to change attitudes formed over 50 years

of communist rule.

The industry was beset with difficulties. Drought struck for the fourth successive year. Farmers struggled with rising costs and large enterprises grappled with falling production. Liberalisation of imports provided stiff competition for the processing industry.

Exports of processed fruit and vegetables totalled

and vegetables totalled between \$250m-\$300m in the first nine months of 1990. About 80 per cent of exports went to the European Community, 15 per cent to eastern Europe and the Soviet Union. Most of the remainder went to the US and developing coun-Germany was Yugoslavia's biggest customer, buy-ing raspberries and cherries worth \$120m between January and October.

Those figures do not conceal a slump in agriculture that began in the early 1980s. Officials in the processing industry blame the stagnation on a lack of government support. They are calling for increased subsidies to producers.

Agriculture is only subsidised by 8 per cent in Yugoslavia, whereas production in EC countries is subsidised by 46 per cent", says Mr Slavimir Radosavljevic, acting secretary of agriculture at the Yugoslav Chamber of Economy.

An influx of imported foods has sharpened criticism. "The federal government is not doing enough to provide the basic foundations for agricul-ture to compete with the rest of Europe", says Mr Radosavljevic.

Imported goods, affordable and attractively packaged, fill supermarket shelves. Bottled vegetables from Austria, Hungary and Germany are no more expensive than dull jars of pickled cucumbers from Vojvodina, Yugoslavla's agricultural

Managers are trying to keep pace with European standards. Last month, producers attended a seminar sponsored by the Netherlands on packaging and quality control.
"No-one used to pay attention
if a label was crooked. Now they realise that consumers will buy another product if it is better packaged", says Mrs Mirijana Dukovic, an agricultural adviser at the Yugoslav Chamber of Economy.

Why with 2.44bn acres of import milk? Mrs Dukovic blames misguided agricultural policies. "The government did not invest in the long term. We need irrigation systems. We need to develop the infrastructure and to province farm communities with the conditions for a normal life."

A rural exodus to urban areas, especially among the young, has decimated village life. The impact on agriculture has been severe, as small farms represent 85 per cent of all agricultural producers.

Industry officials accept that the economic situation pre-cludes the granting of largescale subsidies to farmers, but say more assistance is essential if they are to compete. The federal government thinks competition is healthy, but the industry needs to walk before it can jump", says one producer. "We need basic programmes to improve the irriga-tion systems. If this had been resolved earlier the consequences of the drought would not be so great," says Mrs

Laura Silber



Grocer displays farm produce in a Kosovo shop (above) and (left) a peasant farmer on the land. Food production is dominated by small-scale private farming

Increase in foreign remittances

Rich rewards for migrant workers

YUGOSLAV *gastarbeiters* last month packed into planes, buses and cars, returning home to vote in elections. They arrived at the weekend, loaded down with gifts from the west. On Sunday they left, carrying jars of home-made food, to go back to work in Switzerland,

Germany and France. Nearly all of the 30-40,000 workers who came back in November have spent more than five years abroad. But they remain tied to Yugoslavia and wanted to cast their ballots in the elections.

More than 500,000 Yugoslav gastarbeiters work in western Europe, according to official statistics. Between 15-20,000 workers, over the past five years, have returned annually to Yugoslavia. The return migration peaked at about 80,000 in the late 1970s, when the Yugoslav standard of living seemed comparable to that of

neighbouring Greece or Italy.

Many of the gastarbeiters. mostly men, who returned last month, had left behind families wish to assimilate in their host country. Instead, workers save their wages - sending home monthly remittances to relatives - and plan to return, with thousands of dollars in

savings, to their birthplace.
Total receipts from Yugoslav
workers abroad were valued at \$8.2bu in the first nine months of 1990, which represents a 57 per cent increase over the same period in 1989. Out of the total receipts, \$6.03bn was withdrawn from Yugoslav banks – but the remainder was left in savings, which represents a 54 per cent increase. resents a 54 per cent increase over January-September 1989.

What happens to these work-ers when they come back to Yugoslavia after years abroad? Many open up restaurants, after years of waiting on tables in Lausanne and Paris; some return in Mercedes and drive faxis in Relgrade; and others taxis in Belgrade; and others open up mini-markets, modeled on western convenience stores. It is not unusual in remote Yugoslav villages to discover a

'Stockholm' - a reminder of the proprietor's years abroad. The countryside throughout Yugoslavia is dotted with houses - in various stages of houses - in various stages of completion - which gastarbei-

completion — which gastarbetters build during holidays to move into on their return.

In this country where ethnic divisions threaten to break out into open conflict, the many ethnic groups share the common experience of being a gastarbetter, whether a Serb from the city of Kragujevac or an Albanian from the town of Pec.

Returning gastarbetters can Albanian from the town of rec.
Returning gastarbeiters can
play an important role in the
transformation of the Yugoslav
economy. After more than 45 years of propping up industrial giants, the government, under Mr Ante Markovic, the prime minister, is now encouraging the development of small enterprises. enterprises. The worker who returns from the west contributes more than foreign exchange to Yugoslavia's currency reserves. They have the spirit of private initiative.

Mr Zivko Marie worked for

Mr Zivko Maric worked for 13 years in a West German factory. He returned to Yugo-slavia in 1981, and now owns a small plastics factory in the town Zeleznika, just south of Belgrade. After the initial trials of starting up, Mr Maric is now set to expand his business. "At first, everything was very difficult. It took more than a year just to get the necessary paperwork in order."

The factory produces plastic pipes, which are used for auto brakes and machinery, for

domestic and foreign customers. Mr Maric admits that Yugoslav companies are slower to pay their bills, but understands that he has to "help them through this difficult economic period".

Mr Maric says that foreign capital is an essential ingredient to building up his business.

At present, he is negotiating with Blake, a German company which produces machines

"The first investment will be relatively small, but I am confident their interest will increase as our markets expand," says

His experience abroad has taught him the ways of Western businessmen. Mr Maric complains that high taxes, especially from the republican government, cut deep into his

Yugoslavia's gastarbeiters went abroad with no savings and returned richer and with solid work experience. The gastarbeiters understand Western production standards and qualcapital that will help Yugoslavia, but also their skill and

pride in their jobs. The thousands of workers who will return in the coming years can contribute their sense of discipline, not usually acquired by workers under communism. Mr Maric is proud of his achievements, but he says: "Whoever works, can have this, too."

Laura Silber

Do's and dont's for travellers

Judy Dempsey and Laura Silber offer a few tips for business visitors

YUGOSLAVIA is a challenge for any visitor. The rich diversity of languages, Hungarian, Serbo-Croatia, Slovene, Albanian, Turkish, Macedonian, Bulgarian, may bewilder the first-time traveller to the country.

The two alphabets, Latin and Cyrillic, depending on the republic, will add to the confusion. If you spend Christmas in the western republic of Slovenia, everybody will be celebrating. But in Serbia, which is Orthodox, you will have to wait until January for their great feast A few do's-and-dont's will

make life easier.

■ POLITICS: Yugoslavs are stremely sensitive to any critcism about the political crisis. If you say to the Croats that you "tirink Belgrade, the federal capital and capital of Serbia is beautiful," they will frown.

Praise the capital you are in. And above all, avoid getting into a discussion about which ethnic group you

must sympathise with TAXIS: On arrival at any airport or railway station in Yugoslavia, make sure the taxi metre is operating - not that that makes the slightest difference: we have been in taxis covering the same distances, and the prices are always different. Draw your own conclusions. Negotiate the price.

■ CUSTOMS: Always shake hands. It may not be an Anglo-Saxon habit, but it is a "must" form of

communication in Yugoslavia.

TIME: It has its own dimension in this part of the world, particularly at airline offices and tourist bureaus. Assistants are invariably having a coffee-break which lasts at least an hour. ■ HOTELS: The state-run

hotels are generally badly maintained and expensive. Do not be put off. When making a telephone booking the reservations desk invariably replies, "Full". Don't believe it. Persevere send a telex, or go through a travel agency.

■ QUIRKS: The

Secession-designed Moskva hotel in Belgrade, located in the centre of the city and in need of a massive injection of capital, is the place where East truly meets West. During the summer, the right side of the terrace serves Turkish coffee and the left side serves expresso.

PORTERS: If you have grey government offices, or Chambers of Commerce, never step into the lift without notifying the porter. They sit in smoke-filled rooms, seemingly doing very little and oblivous to the world around them. But they suddenly come to life if you ignore them, even if you have been in the building a hundred times.

APPOINTMENTS/TIME: Never, never expect to complete interviews or

appointments within the hour. or obtain information until

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pro-

the very last minute. the time in the world to give an introductory overview. (minimum length 35 minutes). Things are changing a little. Se patient. Yugoslavs love

TOLL ROADS: They can

be rip-offs: the cost is much cheaper for Yugoslavregistered cars than foreign vehicles. But - and we hope this is not the norm - the collector recently charged us for the full whack of \$15 on the grounds that we were foreigners, even though we had Yugoslav number plates.

E CAR-HIRE: If you are travelling to Kosovo, do not

rent cars with Belgrade number plates. Ethnic Albanians, whose political autonomy was stripped last year by the republic of Serbia entful about this political deed.

HOSPITALITY: Never under-estimate hospitality, if you arrive in a town late at night and if there is no hotel, you can be sure someone will help you or put you up. If you are invited to dinner, it is not just a gesture. It is a statement of intent. # THE POLICE: Do not

argue with them. TOBACCO: Do not expect to find non-smoking sections in restaurants.

■ CURRENCY: Do not be surprised if you cannot make sense out of the many different denominations in the Dinar paper notes. Notes issued before 1990 are a little like the Italian Lira — you had to carry wads of them, but they had little value. If you have a banknote bearing more than four zeros, for example, 10,000, drop the four zeros and you'll have the

right number — and \$1.

MORE CUSTOMS: If your business partner invites you to lunch, be prepared to eat huge courses - of meat naturally - accompanied by several glasses of Yugoslav wine with toasts to your's and

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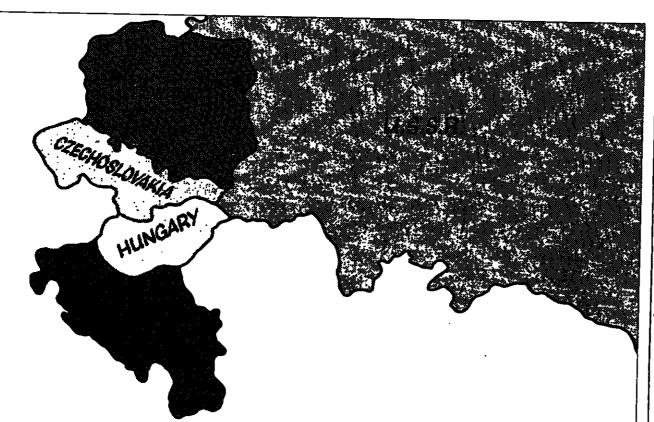
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everyone else's good health. Rakija or slivovica, Yugoslav brandy, is very strong, so beware. You may find vijnak more manageable.

BANKING: Opening a bank account is difficult the rules seem to change at the whim of a particular bank

teller - especially at Beogradska Banka. The customer is occasionally charged a percentage for withdrawing funds. Wire month. In addition, the bank debits a hefty sum when a personal cheque drawn on a foreign account is cleared through a customer's account. By all reports, Jugobanka and Ljubljanska Banka are easier to deal with.

TELEPHONES: If you have trouble with a bank, you could phone your own bank to speed up the transaction. But be prepared to wait. The telephone system is under pressure.



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